COMMERCIAL PAPER

ACCEPTANCES

and the Analysis of Credit Statements

A practical treatise on Commercial Paper, with particular reference to the processes by which the credit risk is determined where such instruments are purchased as a bank investment

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DEDICATION

To the memory of my esteemed friend, the late James G. Cannon, through whose instrumentality I was first led to the study of Credits, this work is affectionately inscribed.

PREFACE

In my recent work, "The Practical Work of a Bank," the subject of Credit is exhaustively treated, but with particular reference to the fundamentals of credit as applied to any credit risk.

The present work has been prepared at the request of my publishers for a simple, concise work on the subject of Commercial Paper, that would not impair the value of the other work, to which the reader is referred for more extended treatment of many phases of credit, collateral to the present subject. To attempt to treat these herein would be a restatement of what has already appeared from the same authorship.

Inasmuch as Commercial Paper now forms one of the principal assets of the banks of this country, and the credit risk must be ascertained by analytical processes that differ from those employed where the borrower is personally known to the lender, I have attempted in a limited scope to outline the basic processes by which the worth of Commercial Paper may be determined.

While much has been written concerning Credit, to my knowledge no work has yet appeared that attempts to apply abstract principles to concrete cases, and I have therefore, after giving a brief treatment of the subject of Credit and Commercial Paper, devoted the remainder of the work to the analysis of actual statements submitted by brokers.

It must be assumed that in every case the credit seeker complies with the rules laid down in the other work mentioned as to character and capacity, this work being devoted solely to an impartial and impersonal review of cold facts submitted, from which we attempt to form a conclusion as to the ability of the maker of the paper to meet it at maturity. The figures are actual transcripts, with names, places and dates changed for obvious reasons, thereby giving actual conditions for our consideration.

W. H. K., Jr.

New York, January, 1918.

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The Purpose of Credit in Business

In the conduct of business, large or small, it becomes needful and proper that *credit* be used for the purpose of obtaining goods on deferred payments, or for borrowing money with which to purchase goods, raw material, etc., and carry on the various financial operations incidental to business dealings. The *form* which the credit takes depends upon the customs of the business as they have developed through the course of years. In retailing, credit usually takes the form of book accounts, and this form of credit is doubtless the most common in this country. But in order to be in position to extend the book credit, borrowing in one way or another must be resorted to. Open account credit prevails largely in wholesaling also, but the borrowing methods may be said to be more scientific, in that more accurate knowledge of the borrower's condition is obtainable, the bookkeeping systems are better, and more careful audits are made from time to time, so that the exact status of the concern may be known to the creditors at stated intervals.

The Avenues of Credit

The avenues of credit in business consist of:

(a) *Private loans* from relatives or friends, and money of employees left in custody of the firm for investment purposes.

(b) *Direct loans* from the home bank payable on demand or at a stipulated time; and *indirect loans,* otherwise known as *discounts,* which are purchases by the bank of the firm's "Receivables," meaning the promissory notes taken by the firm in the course of business. (As a rule, banks are limited in their lending power, and can loan only a certain proportion of their capital and surplus to a single interest; but the law recognizes the difference between a direct and an indirect obligation,

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and so does not limit the amount that may be loaned indirectly in the form of customers' notes discounted.)

(c) *Loans in the form of commercial paper,* which is a floating debt, scattered broadcast and held by banks.

(d) Borrowing in the form of *bond and stock issues and mortgage loans.* This work treats principally of form (c).

Commercial Paper as Secondary Reserve

The deposit obligations of a bank of discount being payable on demand or at short notice, it becomes necessary to either carry a large cash reserve, or a line of investments that can readily be converted into cash to meet an urgent call for funds. The banking public is fickle and is liable at the slightest provocation to start a run. Until a few years ago bonds were considered the most reliable form of investment to fall back upon in such emergencies, but as the liquidity and soundness of commercial paper has become manifest by experience, it has been growing constantly in favor with bankers as a secondary reserve.

In panicky times even the best of securities can be sold only at sacrifice prices, and to borrow is not easy, for the reserve banks may be in the same predicament as the would-be borrower, as was the case in 1907 and again in 1914.

Seasonal Demands

Banks have seasonal demands, depending upon the locality and the clientele served. At certain times there will be an active demand for money, and at other times funds will accumulate. To allow money to remain idle in the vaults or at the nominal rates paid by depository banks, (about 2 per cent.) would be unwise. To purchase bonds of short maturity is often difficult and sometimes impossible; but commercial paper may be had at any time and maturing at any time desired. Being under no obligation to renew, the bank may rest assured of payment at maturity, and in all banks having

seasonal demands, this form of investment is favored. Take the case of the Christmas Club, now widely in vogue. The money comes in steadily during the year, but must be returned in December; therefore banks having this feature will buy commercial paper maturing about the first of December in order to be in funds for the annual distribution, a few weeks later. Commercial paper forms a perfect investment under such conditions.

The Federal Reserve Act has given new dignity and force to commercial paper by reason of the fact that the Federal Reserve Banks stand ready to rediscount all paper that conforms to certain requirements, these requirements being in brief, that the paper shall arise from a business transaction and be of short duration. The Federal Reserve Banks may in turn use the paper as the basis of note issue, the Act contemplating in substance, that having 40 per cent. in gold and 100 per cent. in commercial paper, notes may be issued up to the face value of the paper discounted. Therefore as long as the banker holds eligible paper, he can rest assured that he can turn it into a circulating medium through the Federal Reserve Bank, a process having untold possibilities for good in the commercial world.

Many bankers are now investing in commercial paper solely as a secondary reserve, regarding it next to cash in its liquidating possibilities. Fixed assets, such as bonds, however good, do not by the process of consumption automatically turn into money, for a purchaser must be found before cash can be realized; but commercial paper being given to purchase raw material, or stock, will automatically be turned into cash by the consuming power of the public.

The Advantages of Commercial Paper

The advantage of commercial paper to the banking world lies in the fact that the bank may, by scattering its maturities, have a steady inflow of money from loans which it is under no obligation to renew, and by reason of the scattered risks have better risks, and often better

rates than the home market affords—at least productive use for all its funds all the time. It need have no idle money.

The advantage of commercial paper, whether in the form of single-name paper or receivables, to the business world, lies in the fact that the borrowing field is more extensive and the rates of interest are often lower than the home banks would charge. There is also a distinct profit in the discount obtained for cash. The risk lies in the possibility of being unable to renew the loan at maturity; for paper held by banks in various parts of the country which have no sentimental interest in the borrower's affairs may be forced to collection, whatever business conditions might be.

Commercial paper has had a remarkably clean record in this country and substantial evidence of its intrinsic soundness. In the panic of 1907, during a period of twelve days one firm of paper brokers had ten millions of paper maturing through their office, every dollar of which was paid without renewal. In one bank handling a large line of single-name paper, seventy million dollars' worth of paper has been purchased during a period of ten years, with a loss of but $5,000 temporarily delayed owing to liquidation of the maker's business. Another bank has handled ten million dollars' worth in ten years with a loss of but $4,000.

Single-Name Paper

The single-name paper is an outgrowth of the Civil War. Prior to that time it was the custom of the merchants to make periodical visits to the trading centers and order supplies sufficient to last several months. Owing to the crude state of transportation and slow delivery, it was necessary that large stocks be purchased on long-time credit, the merchant giving his note in payment. By reason of the uncertainty of the amount that would be received in cash at the maturity of the instrument, due to the greenback disturbances, this process was attended by the danger of a depreciating

currency. To obviate this possibility, it became the custom to offer concessions for cash payment. The buyer, therefore, had as an inducement to pay cash, a flat reduction in the amount of the bill; but in order to obtain this reduction he had to have available cash funds. He could obtain these funds from one of two sources: Direct borrowing from his bank, or the general money market. If his bank was not large enough to accommodate him he could not obtain enough credit to carry on large operations, however good his credit standing might be. What more simple, therefore, than to make a statement of his business affairs, attested as to its accuracy by a disinterested party, and fortified by this information, offer his promissory note to whosoever would buy? But in order to find a purchaser, it was necessary that there be a middle man who could give his entire attention to such financial operations. The note broker, therefore, came in between as a necessity, to find a market for the paper.

The market for single-name paper was originally New York City, extending to Philadelphia, Boston and the East, but gradually widened, so that banks in all parts of the country now buy commercial paper in ever-increasing quantities. At first only the great dry goods firms in New York which did a large commission business, and made advances to mills, were obliged to seek credit outside of their ordinary banking circles, because the banks were not large enough to give the firms a sufficient line of credit. They then went to other cities and offered their paper, either the acceptances of the mills or their single-name paper. These were "acquaintance sales" and based, not on facts submitted, but upon the personal knowledge of the names offered. The late James G. Cannon said that one of his first recollections in the banking world was being sent out to offer money to dry goods houses which his board considered good.

The Development of Single-Name Paper

The credit department, as a department of the bank, dates from about 1890, when there were not over six credit departments in operation. In 1895 the executive committee of the New York State Bankers Association adopted a resolution recommending that member banks ask for written statements. In 1898 the National Association of Credit Men adopted uniform statement blanks, and in 1899 the American Bankers Association at Cleveland adopted uniform property statements. These efforts were the beginning of banking credit research, as a necessary adjunct to the purchase of commercial paper.

This development is aptly described by Mr. E. D. Page in *Trust Companies* for March, 1914.

"Up to 1861," he says, "these credits had followed the system then employed and still employed in Great Britain for that purpose. The records of my business show that in New York City alone there were over three hundred wholesale dry goods merchants, selling goods to Western and Southern retail houses, and financing the merchandise sold for a long enough term to provide for its complete turnover and cash liquidation from the proceeds of the crops. The customary term of that credit was eight months, and one, or at the most two, liquidations per annum were all that were commonly expected. The retail buyer had no general credit; he established relations with one or two wholesalers who made themselves familiar with his character, his ability, and the conditions under which he made his sales. The fabric of the trade was built up upon this intimate knowledge of personality, which often resulted in the complete assumption of a buyer's indebtedness by a single wholesaler in each of the merchandise lines which he handled, dry goods, groceries, leather goods, hardware, etc. The goods themselves were mostly staple, accumulated by the wholesaler in anticipation of his busy season, and purchased in his warehouse by the personal selection of the buyer. The goods were then

billed, the bill approved by the buyer, and settled immediately either by a note or draft for acceptance at eight months' sight. The transaction so far as the sale was concerned was closed; the seller knew exactly the amount and term of the credit extended, and the buyer often pledged himself to seek no further credit until the note was paid.

"At home he had no credit, for there was nobody to extend it; the country bank was almost unknown; its functions, so far as they were the needs of a rural or semi-rural community, were performed, in large measure, by the retail merchant himself, who traded upon an elaborate system of accounts receivable and payable, which needed very little cash. My father, who graduated from one of these country stores, has often told me that they frequently went through a week's business without seeing so much as five dollars in real money. At the harvest season the consumer settled by turning over his crop to the retail merchant; he in turn shipped it to a market, where it was sold and with the proceeds the note was paid.

"The farmer was so dependent upon the credit extended by the country merchant, and he upon that given by the wholesaler, that the seller, practically, charged whatever prices he pleased for his merchandise, profits were several times what they now are under our cash system, and New Yorkers who had never done a business of over three or four hundred thousand dollars a year retired early with fortunes or competences. To obtain money with which to pay the manufacturer or importer for his stock in trade, the wholesaler discounted the notes of the country merchant, of course endorsing them, and thus made the double-name paper to which in some quarters it is hoped we shall soon revert.

"But the system had other disadvantages than those of excessive profits due to credit control. It was easy to counterfeit the bill receivable with the endorsed accommodation note, and great losses ensued in various lines of trade from this practice. A crop failure or other disaster in any section not only bankrupted its

local merchants, and dishonored their paper, but strained or broke the wholesalers operating in that region. At the outbreak of the Southern hostilities, every merchant, save one, in this city who sold the Southern trade either went bankrupt or compromised with his creditors. And the fluctuations of the currency combined with the scarcity of merchandise during the war period, did the rest. We emerged from the struggle with totally changed customs of trade. The wholesale business was on a cash basis, thirty days being the average credit allowed. The manufacturers sold their wares on the same basis.

"This system continued satisfactory till the depression following the panic of 1873. By this time the number of dry goods jobbing houses in New York had been reduced to some thirty-five, and new wholesalers had sprung up throughout the West and Southwest. Faraway retail credits were no longer handled in New York, except through the medium of the regional jobber, who soon came to have a credit of his own, based not on the carrying of merchandise, but upon that vastly better and more fluid asset, the possession of short-term accounts receivable due him from his customers. That these accounts receivable have disadvantages it must be conceded; for the date of their liquidation is generally more elastic than that of a note. They, however, are not only established by custom, but enforced by a vigorous competition for sales, which is not likely to be done away with.

"They have besides another reason for existence of perhaps a more permanent nature. Goods are no longer selected in the warehouses of the seller, examined and accepted on the spot. In this case the buyer took the risk of their being suitable for the needs of his clientele —*caveat emptor.* Modern merchandise in many complicated forms is today, in fact, distributed by drummers, who sell exclusively from samples, and generally for future delivery at a more or less distant date. The goods are not accepted until they arrive at the store of the buyer and sometimes not then. The seller guaran-

tees them to correspond with sample, to arrive in time for the season's business, and to be reasonable in price. Often guarantees, explicit or implied, are entered into as to their desirability. And so the modern business of commodity exchanges is further complicated with *implied warranties,* which stand in the way of any fixed and definite settlement of the amount due, so that it should become the basis of a promissory note. *Implied warranty,* as distinguished from *caveat emptor* is now the legal status of a very great part of the commodity exchanges of this country, and it is doubtful if it can be done away with or even that it is desirable that it be done away with, so firmly is it fixed in the customs and habits of the one million seven hundred thousand firms, corporations and individuals, who are doing business over the breadth of this land.

"Therefore the material no longer exists for the four months, six months or eight months bill receivable in transactions among the large houses in the wholesale trades. And merchants rightly refuse to be annoyed and impeded with notes liquidating short-term credits, especially where the exact amounts payable are contingent upon the fulfillment of implied warranties involved in the sale.

"In recompense we have the system of cash or short-time settlements in the distributing lines of trade, and best of all the local extension of credit through the country bank, which has been evolved in response to this necessity. If by reason of slow collections, crop failure or other local disaster, the retailer is unable to meet his obligations to his regional wholesaler, he has two resources. The first is his local bank. The local banker lives beside him. No one better than he is the judge of his character, of his ability in management, of the investment of his means, the three criteria of credit. And so, many a country merchant whose statement would not go current for credit in the great city is preserved to the life of trade by reason of his character and ability, known by a neighbor, as is only possible at short range.

"He may, indeed, perhaps obtain an extension of his overdue account with the wholesaler, by giving notes which will carry the account over to a more favorable season, and thus produce that insignificant element of double-name paper so highly esteemed by theorists in banking, and fondly supposed by students of foreign practice to be equivalent to the bills of exchange current on the discount markets abroad. They do indeed look like them, but there their similarity stops short. And to force such an extension upon the creditor gives a shock to the borrower's credit, from which it but slowly recovers.

"The notes which are given to the local banker, when endorsed by him, are on the contrary the best possible class of deferred obligation, not because they are given by houses of presumably large capital, but because they are based upon the most accurate and careful estimation of the two grand elements of credit, character and ability, and backed not only by the capital of the maker, but by the total capital of his community, expressed in the name on the back of the note.

"Can a system which has so gradually grown up in this country of magnificent distances, of diverse conditions, of local pride and decentralization, perfectly adjusted to the complex and slowly developed needs of its business, be cast aside, without great disturbance to its industry and trade?"

The Note Broker

The note broker is an intermediary between the bank and the borrower. He has his customers in all parts of the country wishing to sell their paper, and banks all over the country in position to purchase paper at all times. He satisfies himself that the risk is good, obtains the credit information, arranges it for ready reference, submits his proposition and collects a commission for his services, but does not guarantee the payment of any instrument or the correctness of any statement, relying upon the chartered accountants for his information, which he passes on to the lender.

The following paragraph from a commercial paper offering indicates the attitude of the broker in this regard:

"From every standpoint this company is very strong and we regard its obligation as an exceptionally safe and desirable type for investment. We buy it ourselves with confidence and recommend it without qualification."

Being assured in his own mind that the risk is sound and that he can endorse it, morally if not legally, the broker offers these promissory notes, having but one maker, but often endorsed* in large and even amounts, to banks having funds to invest for short-time periods. This custom has proved so sound in its working and so beneficial both to the borrower and the lender, that single-name borrowing has come to be the most prominent method in business circles today, and an important factor in the financial arrangements of the present day merchant and manufacturer.

The old promissory note which settled a debt by a promise has, therefore, given way to the promissory note which raises money to pay the invoice, the profit on the cash discount offsetting the cost of the money. The profitableness of this method will readily be seen by a single illustration.

The Profitableness of Cash Payments

Let us suppose a merchant has such good standing and money is so plentiful that he can borrow at 4 per cent. He borrows $100 in order to take advantage of a cash discount of "2 per cent., ten days," on a $100 purchase. If he were to pay 6 per cent. interest on the $100 for a month his interest would be only 50 cents; and for the invoice of $100 he remits $98, a profit of

* In putting out single-name corporation paper, it frequently happens that some or all the directors interested in the concern will endorse personally. This is called "endorsed paper." There are notes of manufacturing concerns on the market bearing the personal endorsement of from ten to twenty directors, which, of course, adds their individual liability to that of the corporation.

$1.50. This discount of $2 is equivalent to 72 per cent. a year, or twelve times the borrowing rate. This does not mean that he has made 72 per cent., but it does mean that if he were to make $2 by the employment of $100 at interest in that length of time, it would have to be invested at the rate of 72 per cent. Whether or not the seller has added $2 to the selling price is beside the issue, and is a trade secret; but the fact remains that the merchant has paid a $100 debt for $98, thereby making a cash profit of $2, less the cost of the money with which he has made payment.

These discounts are taken advantage of by all well-managed firms, being sufficient in some lines to constitute a large part of the profits. In practically every line of business single-name paper is used to obtain funds to be used in taking advantage of the concessions heretofore mentioned, and is firmly established in American banking and commercial practices.

Registration of Commercial Paper

The registration of commercial paper has been a much discussed topic in the past few years, but the movement has never gained much headway. In 1910 a large industrial concern arranged with a New York trust company to register all paper sold by it, reporting as cancellations were made and new issues put out, so that the corporation's indebtedness in this line was authoritatively known at all times. The idea has been favored in banking conventions, and state banking superintendents and clearing houses have made suggestions to the end that a central bureau of credit should be established for various zones, wherein credit information could be assembled and credit instruments registered, as a means of protection to the banking interests of the country. With the development of the Federal Reserve System, the logical medium would seem to be the Federal Reserve Banks, inasmuch as they cover the country, have access to the bank credit files, rediscount for members and have all the machinery and all the power necessary to insti-

tute and carry out this important feature of commercial paper. Thus far no great strides have been made but state banking departments are now operating credit bureaus for the purpose of filing information relative to borrowers in the jurisdiction, as a safeguard against over extension of credit.

Two-Name Paper

Two-name paper is what is called "receivables," meaning the note of the debtor given to the creditor in payment of a debt. Before it can be negotiated it must be indorsed by the payee, who by the act of indorsement becomes liable for its payment in case the maker fails to pay, and it has the added strength of another name as soon as it is negotiated. These are sold in the same manner as single-name paper and are as a rule in odd amounts. The "Claflin Receivables" were the best known paper of this kind until the firm went through reorganization. These were the notes that had been taken by the Claflin house from its customers and sold in the market with its indorsement.

Relative Advantages of Single and Two-Name Paper

Both single and double-name paper have their advantages. The single-name paper is a direct obligation, easy to check, in large denominations, uniform and round amounts. It is equivalent to handling bills of large denomination against small change. The bookkeeping is simple.

Two-name paper has an advantage in that it has the strength of two names, carries on its face evidence that it is for a business transaction, but has the disadvantage in being possible accommodation paper, it being easy to disguise its nature if fraud and trickery attend the transaction. There is no evidence on the face of single-name paper that it is for commercial purposes, but is always presumed to be issued for the purpose of taking advantage of cash discounts.

The possibility that two-name paper may be fictitious, or accommodation paper, while a factor to be considered, is not serious, but fraud is possible in all things. It may be "swapped paper"—one firm trading its paper for another; but if it represents a business transaction, as it properly should, a bona fide debt, it is a highly desirable form of credit instrument and in wide use in European countries, where single-name paper is practically unknown.

Necessity of Credit Statements

The necessity of a credit statement is apparent. A casual knowledge of anything is dangerous, and the fact that a man is a man about town, well known in business for a length of time, a good provider, a good spender, owning certain real estate, does not warrant the conclusion that he is a safe credit risk. This can only be determined by an intimate knowledge of his affairs as disclosed in his credit statement. We must know how much he is worth; what constitutes his assets, and most of all how much he owes, and in what form. Some firms refuse this information on the ground that they never borrow, but even so, to have one's affairs known to the banker, who sooner or later may be asked to be a lender, is a forehanded precaution.

PIVOTAL POINTS IN A CREDIT STATEMENT

Before proceeding to analyze a credit statement in detail, certain features should be given first attention.

(a) *The statement must be of recent date.* In the exigencies of business much can happen in the course of a short time, and to make a loan on a statement of condition a year or two past, is to take the chances that the passing of time brings; therefore the date should be not over six months past, and later if possible.

(b) *It should be an authenticated statement.* The tendency of any business concern making an appraisal of its own affairs is to magnify the assets and minimize the liabilities; to unduly appreciate the resources and depreciate the liabilities. Human nature is prone to overvalue its own possessions, and this weakness is manifest in every statement made by the owner. The only reliable method pursued by a large number of commercial houses is to have periodical audits of the books made by public accountants who have no interest in the business, and whose sole aim is, or should be, to arrive at a correct statement of condition. Reputable auditing concerns are jealous of their good name, and endeavor to put out nothing over their signature which is not reliable; therefore, any credit statement attested by such a concern may, as a rule, be depended upon.

(c) *Paper should be bought only through a reliable broker.* As the field of commercial paper has widened and its place in the banking world become more firmly fixed, and the market broader, numerous individuals have gone into the business with little or no financial standing and unscientific methods. Such brokers should be avoided, and purchases made only through established firms. There are certain brokerage houses whose names are synonymous with quality, who examine every credit risk carefully before undertaking to market the paper, and the fact that it is offered by them is evidence in itself of careful investigation and quality. No good

house will risk its prestige by offering unsound paper. An examination of a large number of credit statements furnished by two leading houses, from which those used in this work were selected, results in the conclusion that one could in safety purchase the paper of any or all. This does not, of course, mean to infer that paper put out by such houses is entirely without risk, for some of the largest concerns that have gone to the wall have been financed by well-known brokers who were themselves deceived as to the risk involved. *The broker never guarantees the paper.*

Audited Statements

The custom of audited statements has been fast gaining ground in the field of commercial paper, due to the insistence of the bankers for information as to the borrower's condition that could be fully relied upon.

The questions arise: Do these audited statements guarantee anything to those who rely upon them in extending credit, and do they uncover anything which the lender ought to know in advancing money to the firm audited? We must have a clear idea of what auditing means before we can discuss what it aims to do. We must know something of the auditing process, and what results it aims to show as the sequence of the audit.

An *accountant* is one who makes the examination of accounts his profession; and an *audit* is the examination made by an accountant, duly attested. This examination has a time element as of the date when the audit is made, and if it expands into an *investigation,* it is periodic and covers a space of time. But the banker is concerned with the actual condition at *a* time, rather than the incidents and processes that lead up to the condition at that time. The audit aims to show the true condition as nearly as the auditor can make his computations. It is most of all honest and independent, for if not honest, it cannot be independent, and a false audit is impossible except by a rogue.

When commercial paper is offered the banker over the signature of a duly chartered accountant, he may

safely conclude that the auditor is competent, the audit honest and the results as accurate as can be. The degree of competency is a matter of choice and experience. The authorization of public accountants is becoming more and more rigid, their qualifications more exacting and the numbers relatively small. But it may be concluded that all audits are honest, for to be otherwise would be suicide to the profession. The auditing profession has not reached the point where it may guarantee its audits. The best it can do is to certify that conditions are as named, values as stated, in so far as the auditor has been able to ascertain from the records. He may be amiss in his judgment of values, but at best it is a human audit and subject to all the limitations of the human element, but it is the safest estimate of the firm's condition aside from an *appraisal* which is an *audit plus an investigation.* Subject to these limitations, the audit is the most reliable source of credit information and is so regarded, especially, if the audit is made by a firm specializing in the particular line audited.

The courts of this country have not been inclined to hold auditors or public accountants to a legal responsibility for their audits, but the English courts have held certified public accountants to absolute honesty and good faith, reasonable care, intelligence, professional skill and ability in the making of audits. The accountant should be legally liable for fraud if he purposely misrepresents or grossly misstates conditions, but not for failure to report things which he did not discover. The auditor is not a valuer. He is not an insurer. He is not a guarantor. But he is more than a bookkeeper. His work represents more than a mere mathematical calculation. "While he is a watch dog, he is not a bloodhound," as one English judge puts it.

In the matter of inventory, the auditor does not appraise—he checks. He substantiates the results as a whole. He may test and prove, but as a rule he cannot make the actual inventory, which would be a physical impossibility.

To summarize:

(1) Failures have been costly to banks because of misrepresentation. They may be deliberate or unintentional. A well ordered audit will eliminate the errors of misstatement.

(2) A periodic audit will shortly disclose unsafe conditions. It will not prevent failure, in itself, but will hold out the red flag of danger.

(3) Where banks are loaning to unknown borrowers, independent information is absolutely necessary if safe loans are to be made.

(4) While an important source of credit information, it is but one of several avenues of information.

Speaking on the subject of audited statements before the Clearing House Section of the American Bankers Association at Boston, October 7, 1913, Ralph Van Vechten, vice-president of the Continental and Commercial National Bank of Chicago, said:

"I have had prepared a careful analysis of the causes leading up to several failures and find the following:

"Taking twenty-one leading houses whose paper was floated over a wide territory, the liabilities disclosed by insolvency totaled $39,097,629.

"The latest previous statements obtainable issued by these twenty-one houses showed:

Bank debts	$14,702,096
Other debts	8,888,012
"Total liabilities according to statements.	$23,590,108

"Showing the enormous increase of $15,507,521, or sixty-five per cent., in actual liabilities over those admitted in statements.

"The total assets claimed by these same concerns were $61,374,714.

"But under the fair assumption that the assets were padded in about the same proportion as the indebtedness was falsely scaled down, and that in liquidation there is a great sacrifice of values, the small percentage paid creditors is easily explained.

"The above does not include any concern, the sale of whose paper was confined to only one or two sections of the country.

"From this it is plain that this is a subject which should appeal to bankers generally.

"In addition to loans shown by statements, it is estimated that the increase disclosed is largely held by banks, so it is fair to assume that bank losses, in these twenty-one cases, under 50 per cent. settlements, would equal $15,000,000.

"We find that fifteen of these failures were due to over-extended credit, and out of the fifteen there were four instances of padded statements.

"Two were caused by dry rot, poor business and poor management, and one of these included a padded statement.

"One was the outcome of labor troubles and poor business, with a padded statement.

"We find one case due to internal dissensions.

"In another, investigation shows that for a long period the actual working capital had been employed by the largest stockholder of the concern in his private operations, during all of which time he had been making false statements to his bankers and note brokers.

"One of these failures was the result of the flood conditions in the Ohio Valley, this being one of two cases out of the twenty-one mentioned that promise reorganization with payment in full to the creditors.

"To summarize, we find nine cases of padded or dishonest statements, two of which were most outrageous distortions of the facts, it being shown that they actually had a very small margin of working capital. One of these was doing a volume of business running up into the hundreds of thousands, and the other up into the millions, entirely on the credulity of bankers and note brokers. In the whole list there was but one case of an audited statement, and that company's failure was the result of an unforeseen and terrible disaster.

"Taking these analyses as a basis, it seems fair to assume that fifteen of the failures may be attributed to

the ease with which flotations of paper could be made through the note brokers, and also that these concerns would never have been allowed or encouraged to go from bad to worse year after year, if proper restrictions had been thrown around the issuance of statements. In fact, it has seemed evident that brokers have in some instances used every effort to place large lines of paper regardless of the actual requirements of their customers.

"Now, as to the matter of audits, the figures quoted are certainly convincing, and it is self-evident that only one name out of the entire list would have been purchased if the buying banks had insisted upon the purchase of no other notes than those whose makers submitted audited statements, and this concern failed through an act of God, instead of through any fault of the management, so that it stands out as a splendid exception which proves the rule."

The following is a well stated certificate of audit:

We have audited the accounts of the Blank Company for the year ended November 30, 1917, and certify that the Balance Sheet appended hereto properly presents, in our opinion, the financial position of the company as at that date.

The cash in banks and on hand has been verified by certificates from the several depositaries and by actual count respectively, while the notes and accounts receivable are stated after making the provision for bad and doubtful accounts. The inventories of manufactured merchandise, raw materials, supplies, etc., as taken under the supervision of responsible officials of the company and to which they have certified, are priced at actual cost, with the exception of the company's own manufactured merchandise, the latter has been valued on the same basis as formerly, namely, at selling list prices less 12½ per cent. discount, which, while in excess of actual factory cost, is sufficient to yield a margin of selling profit.

The securities for the investments have been produced for inspection and we have examined the vouchers and other data in support of the expenditures on additions to the physical properties during the year under review. The expenditure on lasts, patterns, dies, etc., amounting during the year to $174,045.23, has been charged direct against factory operations and consequently is not included in the additions referred to above. The amount charged to operations in respect of depreciation and maintenance of the physical properties for the year under review is, in our opinion, adequate for these purposes.

All liabilities of the company at November 30, 1917, of which we have cognizance, are included in the Balance Sheet.

(Signed) A. B. C. & CO.,
Chartered Accountants.

We have audited the accounts of the Blank Hardware and Manufacturing Company, Inc., for the year ended April 30, 1917, and certify that, in our opinion, the foregoing balance sheet properly presents the financial position of the company as at that date and is as shown by its books.

We have verified the cash in banks and on hand and have seen that full provision has been made for discounts, claims and losses on notes and accounts receivable. The hardware and other merchandise and materials as inventoried and certified by responsible officials, have been valued at less than cost or market prices at April 30, 1917. Ample provision has been made in respect of depreciation on the physical properties, and no value is carried for equipment, furniture, fixtures, etc., while the investments are carried at cash or nominal values.

All liabilities of the company at April 30, 1917, of which we have cognizance, are included in the Balance Sheet, the contingent liability of customers' paper under discount being noted above.

(Signed) X. Y. Z. & CO.,
Chartered Accountants.

Comparative Statements

A credit statement is a statement of the condition of a firm at a particular time, showing what the firm owns and what it owes. It should be the result of an *audit*, bringing to a focal point all the business of the concern, so that a bird's-eye view is obtainable. From this we may judge the condition as at that particular time. But such a process has no relation to the *progress* of the concern from time to time. This can only be ascertained by a *comparison of statements*. Therefore, it is quite a common custom for banks to make a digest of the statement on their own forms, giving the various items in apposition, a study of which will indicate whether or not advancement has been made.

Such a procedure will enable an analytical mind to determine with considerable accuracy the growing strength or weakness of the concern. If, for instance,

the volume of sales has increased year by year and the accounts receivable are more or less uniform it will indicate that the concern is making prompt collections. But if the sales are stationary, and the accounts receivable increasing, it would indicate that a growing proportion of the credit is slow. If the bills receivable are increasing it will indicate that the payments are slow and the debtors have settled by note rather than cash, an unhealthy sign, particularly if notes are not the accepted form of credit in that particular line.

Such an analysis requires knowledge of the business under survey, and training in accountancy, but it can be acquired by any one who will give it the necessary study.

The Ebb and Flow

Many lines of business have periodic activities, due principally to the seasons. For instance, in the spring farmers are spending money for seed, fertilizer and labor; in the fall they reap. They are justified in borrowing in the spring, but should pay in the fall. Wool must be clipped in its season, which is short, paid for, and stored until needed; when the buying season is over wool debts are high; but a year hence when the old crop is about sold and the new crop coming, the old debts should disappear. Millinery has its seasons. The retailer stocks up for the spring and fall trade, and is expected to run in debt; but when the season is over the debts should disappear, and the accounts receivable of the wholesaler be turned into money. Merchandise should be turned into book accounts, book accounts into cash, the cash cutting down the commercial paper outstanding as it matures, which time should be when the invoices are falling due and cash is coming in.

A building contractor, for instance, would need money to carry him through the spring, summer and fall, to complete the year's work, but during the winter he should pay his debts in full before starting another season's operations. In such cases, statements

should be obtained from the borrower at the height and at the ebb, so that the contrast may be noted. In such lines as groceries and meats, having no special seasons, except it may be, in the canning line, a uniform amount of debt is to be expected.

DETAILED ANALYSIS OF A CREDIT STATEMENT

In all credit statements the items should be arranged to show the quick assets and the quick liabilities separately. As a rule these are listed first and totaled so that the ratio may be quickly ascertained. The usual order is: *Quick assets:* (1) Cash on hand and in bank, (2) bills receivable, (3) accounts receivable, (4) merchandise. *Quick liabilities:* (1) Notes, both to banks and to other creditors, (2) accounts payable.

The other assets and liabilities follow in no stated course, as such assets and liabilities are not uniformly found in all credit statements, and are to be regarded as "backbone" to the business, the qualitv and strength depending upon the nature thereof.

CASH

Unless an audit is carefully made by an independent party, the *cash* is liable to contain "I. O. U.'s," and other representatives of debt. The item of cash permits fraud to a very large extent. In the early days of American banking it was customary to find listed as cash anything for which cash had been expended; as, for instance, paid gas bills, expense vouchers, etc., and it is obvious that such items are in no sense what they presume to be. But we assume that the cash is "clean," and what it purports to be.

While a large amount of cash is not always necessary, yet a working balance sufficient for the concern's needs is always desirable. Many a business is conducted on so close a margin that any miscalculation leads to anxiety and embarrassment, as for instance, to meet the pay roll when a remittance is unexpectedly delayed. The bank account may be depleted a few days after an audit through special disbursements. It is well to know whether the cash balance is normal or unduly large in anticipation of an audit. The proper proportion of cash is difficult to determine, depending upon the nature of

the business. It helps a credit risk considerably to have a cash balance sufficient to make the account in the bank a desirable one from the banker's viewpoint. The rule is well established in loans to the bank's own depositors that a ratio of four of debt to one of balance is proportionately right; that is, the borrower should have one dollar to his credit in bank for every four dollars owed to the bank.

Merchandise

Merchandise is the most difficult of all items to correctly appraise. In a stock of large dimensions, it is apparently difficult to ascertain the value of the stock on hand. An independent audit would be a long and difficult process in an active concern; therefore, much reliance must be placed upon the integrity of the manager to furnish an honest inventory. A rough checking may be made by taking the previous inventory, adding the purchases and deducting the sales at cost; but this assumes the first inventory to be correct. It is obviously easy to add a few figures to the listings, thereby inflating the merchandise account with no ready check.

Inventory

The proper basis of an inventory is a matter of opinion. A fair basis would seem to be the amount it would cost to replace the article; but this allows no profit for its sale. If the market is unchanged from the time of purchase cost is a fair basis; but if the market is lower, which means that the article could be replaced at a less figure, accounting firms of high standing are agreed that *cost less the usual profit* should be the inventory figure. To illustrate: If a dollar article is bought to sell at 25 per cent. profit, one dollar would be a fair inventory figure; but if the article would sell for a dollar and cost one dollar, eighty cents would be a proper figure which allows the article to be sold and still have the expected profit over inventory.

In the matter of inventory, it is important that it be taken at a time when it truly reflects a normal state of

affairs. One of the leading accounting firms has been advocating the closing of the books of department stores as of January 31, for the reason that the heavy buying for the year is past, Christmas sales are over, stocks low and the special sales to close out the fall and winter goods completed. The year's heaviest liabilities are on the books, and a general cleaning up of stocks is past. From an accounting standpoint it is important that there be no goods in stock that have not been offset by the corresponding invoice as an account or a bill payable.

In the automobile line, a closing of the books during the summer is advocated, for the reason that most of the season's output of cars is in the hands of the agents, and the factory inventory is at the lowest ebb. For the lines that have seasonal demands, a "psychological date" should be chosen, which accurately reflects the high peak and the low of the business. If on the other hand, a stated date is chosen, it may lead to padding, or other process to show a favorable statement. To guard against this, some accountants are adding a monthly statement of the liabilities month by month, for the purpose of showing the banker the company's debts at various times. This gives the banker a foundation to work upon in anticipating the probable needs of the borrower, as well as the relative safety of the firm's obligations.

The Basis of Inventory

The following paragraphs, taken from credit statements submitted by commercial paper brokers, will indicate the methods used by leading public accountants in the matter of inventory:

The inventory of merchandise is stated at cost, less trade discounts, and after making adequate provision for depreciation of stock regarded as obsolete, but no provision has been made for possible loss on stock carried over from last season. The inventory includes $20,443.54 for spring merchandise received in the warehouse prior to December 31, 1915, but does not include goods in transit.—*Marwick, Mitchell, Peat & Co.*

Mr. M. states the stock consists of commodity stuff (denims, ducks, sheeting, cotton piece goods), staple as groceries and quickly salable at a slight discount; that the inventory was taken at cost if

below replacement market, at replacement market if below cost, and contains a substantial profit not shown due to increased values obtaining at date of statement.—*Signed statement of the firm.*

We are advised that their merchandise item is always valued on a basis of cost if the market value is above cost and at market value if the latter should be below cost. We are advised that full insurance is carried at all times on both inventory and buildings.—*Memo on credit statement.*

The inventory of merchandise, as taken by responsible officials, has been valued on the basis of latest invoice cost, due allowance being made for depreciated or out-of-date goods.—*Price, Waterhouse & Co.*

We made a physical test examination of the merchandise inventory in order to prove that the quantities were properly recorded. The inventory is valued on the basis of cost price.—*Marwick, Mitchell, Peat & Co.*

The *kind* of merchandise is important. It is readily to be seen that a stock of meats will bring a quick return and nearer the cost price than an old stock of out-of-season articles, and in checking the merchandise item the *nature* of the business must first be considered. The usual procedure is to take a signed statement from the firm to the effect that inventory has been conservatively taken.

The "turnover" of the business is also to be determined by the merchandise item. Having the amount of sales *at cost,** we may divide the inventory at cost into the sales to determine how many times a year stock is turned. If we have a stock worth $1,000 and the sales *at cost price* are $3,000, we evidently have turned the stock into money three times during the year; but if the sales were but $1,000, it would indicate that the stock had been sold but once, a sure indication of lethargy.†

Bills Receivable

A *Bill Receivable* is a note taken in settlement of an obligation. In some lines these are much in evidence, as for instance, in the lumber industry, where the ac-

*To obtain the cost of merchandise gone out of stock, divide the gross sales by 100 plus the usual profit. See application of this rule on page 101.

†For further discussion of this subject see *The Practical Work of a Bank*, by the same author, pages 449-451.

count is not carried as a book credit, but notes are given for purchases. Notes receivable should not be apparent in any large amount in concerns doing a cash business as, for instance, a department store. There is no reason why such a concern should take a note in settlement of an account that is good, unless all collecting resources have failed; therefore the customs of the business should be known in order to determine if such an item is properly allowed. The bills receivable if in large amount should be investigated. They should not include notes of employees or members of the firm or relatives, given for money loaned. They are allowable only as they represent an actual sale of goods. If given for old accounts they are a doubtful asset. Are they larger than customary in this line? Do they indicate lax credit methods or poor collections? Are there any renewals? Do any represent loans to officers, employees, etc.?

It is the custom of many firms receiving such notes to discount them at their bank or in the open market, and they are termed "receivables," to distinguish them from single-name paper. Thus the "Claflin receivables" were notes taken by the Claflin firm and sold in the market with the firm's endorsement. Where such instruments are taken in payment of obligations, and discounted, there should be a *contingent liability* shown on the credit side of the statement to indicate the firm's liability thereon. The most notable examples of receivables are in lumber,* raw fur, silk and agricultural im-

*The statement of a lumber company in Texas shows:

Notes payable	$272,000.00†
Accounts payable	21,300.00
A Maine lumber concern:	
Notes payable	$367,673.14
Accounts payable	32,149.87
An Ohio lumber firm:	
Bills payable	$542,136.18
Accounts payable	9,127.79
A Kentucky lumber company:	
Bills payable	$1,136,000.00†
Accounts payable	10,322.73

†These round amounts would indicate that these firms issue single-name paper, which in lumber is the exception and not the rule.

plements, cash registers, pianos, automobiles, scales, soda fountains and other articles which are sold on time, and serial notes taken in payment, and of course, are a prominent feature in the statements of such firms. (See statements, pages 112, 124, 136, 142.)

If the firm makes it a practice to take notes in payment, it should not have a large amount of book accounts. For instance, installment furniture houses sell on book credit and should not have receivables in their statements at all. As before stated, the receivable that represents an over-due or uncollectible account is a doubtful asset.

Accounts Receivable

Accounts Receivable are merely book accounts with customers of the concern. They are, in the eyes of the law, the "account stated,"—the undisputed obligation of the debtor.

The old-time custom of settling a debt by a promissory note has given way to the book account. The seller opens a credit with the buyer on his ledger on stated credit terms, and the sum total of these unpaid balances constitutes the "accounts receivable" of the firm. A careful audit of these would show them to be divided into: Accounts not yet due, accounts due, accounts overdue, accounts slow, and suspense items, the latter including those that may require legal process to collect. It is customary, however, to classify these items into open accounts, "good" and "doubtful," with due allowance for depreciation in collecting. Next to cash and bills receivable, book accounts are the firm's best assets, for they are constantly turning into money by the lapse of time. Such accounts should of course be bona fide transactions and properly scaled.

The following paragraph from a statement indicates the scaling process as made by an accounting firm of high standing:

> We made a thorough examination of the accounts receivable and have deducted from the aggregate of these accounts an amount of $22,000 to provide for the loss on collection of accounts known to

—your customers charge more than we do to discount their accounts

Do you realize that if your accounts average paid in 60 days, and we give you 80% cash when shipped, balance as you collect the accounts, you can do *four times as much business* without adding a dollar to your capital?

If your customers do not discount, they probably more than pay our charge, because of the difference in their cash and time price. Let us carry them—giving you your capital tied up in their active accounts (without further profit). with which to discount your bills or buy for cash, thus enabling you to increase your volume and make *added selling profits.*

One of our customers rated $200,000 to $300,000, *first credit,* writes us:—

> "I am pleased to enclose statement of our Company. Comparison of this statement with the one furnished you last year tells its own story. We have just passed one of the most successful years we have ever had. We added $34,517.69 to our surplus—$9,995.50 to our reserves. Total gain, net $44,513.19."

Our charge is only 1% a month figured to the exact day, if you sell us $100,000 of accounts within a year, otherwise there is an added charge of $5 a $1000—*no commission, no interest.*

Write us for details and rate, or our nearest representative would appreciate a request to call—no obligations.

[ADVERTISEMENT IN NEW YORK TIMES OF A FIRM OFFERING TO BUY ACCOUNTS RECEIVABLE]

—increase your active working capital

without adding stockholders or partners

From a customer rated $100,000 to $150,000.

"We find that your service has enabled us to materially increase our volume and net profits, also that we have been able to offset your charges by additional discounts received on purchases."

Here are three of the twenty concise answers which our booklet "Talking it Over" has for the questions of the Manufacturer or Wholesaler who wants to increase his working capital:

Your Question.—*Why should we sell some of our Accounts Receivable to you?*

Our Answer.—Because your capital in your accounts produces no further profit. Your profit is in selling goods, and we can enable you to sell more of them. You can reduce your credit sales to about 80% cash, at the expense of your customers who do not discount. You can buy closer, and strengthen your credit with our money.

Q.—Do our customers know their accounts are sold to you?

A.—No. You can arrange to collect the accounts for us so that your customers will not be disturbed.

Q.—How does your Total Charge compare with the usual discount we offer our customers?

A.—If your sale terms are 2/10, net 30 days, our Total Charge is about two-thirds of what you offer such customers to discount. If you sell us $100,000 of accounts within a year, our charge is less than one-half.

The other 17 answers are equally clear and direct. Let us send you the complete booklet—or our nearest representative will be glad to call.

[ADVERTISEMENT OF FIRM OFFERING TO BUY ACCOUNTS RECEIVABLE]

be doubtful or bad, as also the possible loss on collection of accounts meantime apparently good and collectible. This reserve we have created on the basis of past experience of losses and is, in our opinion, sufficient.—*Marwick, Mitchell, Peat & Co.*

In late years it has been a growing custom for firms to hypothecate their accounts receivable. This should be closely inquired into. Numerous concerns now make it a business to loan on these accounts—in substance *buying the debt.* For instance, a bill of goods is sold by a wholesaler to a retailer on sixty day credit with a cash discount. The seller is not in position to wait until the end of the term for his money; therefore, he offers the book account to his "commercial banker," who if satisfied that the account is good, will loan against it, or, in other words, buy it. He generally requires a margin of safety. If, for example, the account is considered a high-grade risk, the banker will advance eighty or ninety per cent. of the face of the invoice. If the seller were in urgent need of funds, he might obtain the full amount —for a price. This custom is fast growing. Thousands of firms make it a business to sell their book accounts as a steady method of financing. Banks are also lending on such security, but as a rule with less knowledge of the facts than those who make of it a business. It therefore becomes necessary to ascertain if these accounts have been pledged, for if so, they are no longer an asset, and should not be classed as such.

This item also indicates the collection methods of the firm. If, for instance, the total net sales are $20,000 a year, and $5,000 represents the accounts receivable, it would indicate that one-quarter of the year's sales are on the books; in other words, that the firm is selling on three months' credit. On the contrary, it also indicates the condition of these accounts, for if the annual sales are divided into monthly averages, the accounts receivable will show how many months' sales are on the books, and reflect the collection methods. A firm selling on thirty days' credit should not have three months' sales on its books; if so, it indicates a slow collection system. Forty-five days' sales would be normal.

It is important that the accounts receivable are in proper ratio to the merchandise on hand. If we know the annual sales and the terms of the business, we can determine about how much merchandise they should carry, in order to meet the needs of their business. For instance, a firm selling $10.000 a month on sixty days' credit should have stock for three or four months' demands.

Quick Liabilities

Bills Payable.—The liabilities concerning which the buyer of commercial paper is most concerned consist of (a) notes payable, and (b) accounts payable. Bonded indebtedness, mortgages and stock issues are outside the realm of commercial financing.

Notes payable include notes given for merchandise, notes given to home banks, notes sold in the open market (commercial paper) and notes given for money borrowed from relatives and friends. There are also the notes given for fixtures, payable in installments, and secured by a chattel lien against the goods themselves. These are not properly a liability unless the articles which they represent are listed as an asset. We might call them contingent assets and contingent liabilities. For present purposes we are concerned with two classes, namely, notes given for merchandise purchases and single-name paper.

As a general proposition the firm should not have the two forms of paper on the market at the same time. If they settle by note, they should not borrow on commercial paper, which assumes cash payments; and if they issue paper to take cash discounts they should not settle by note. *If the notes payable are in an odd amount it is sure to indicate that it is not single-name paper,* but receivables; for single-name paper is always issued in round amounts, and the presence of odd cents should be investigated. An examination of fifty credit statements by the writer shows no odd amounts in any of the notes payable.

Notes payable to relatives and friends are indicators

of lack of capital and exhausted credit in other fields, and may be secured by unrecorded liens.

Commercial paper should never be issued for a fixed purpose. Machinery and other fixtures should represent the contributed capital, and the receipts from bonded obligations. Commercial paper should never be issued for anything but liquid purposes. A firm going into the manufacturing line and requiring machinery should raise the money from a mortgage loan and capital contributions, never from commercial paper, the functions of the latter being to raise money to purchase merchandise, or raw material, out of the sales of which the debt should be met. In other words, *long-time loans* for *fixed* purposes and *short-time loans* for liquid purposes.

Accounts Payable.—Accounts payable represent purchases on open credit charged on the books of the seller against the buyer, to be settled on stated terms, the time depending upon the customs of the business. In all well-managed concerns such accounts are settled promptly in order to obtain the cash concessions heretofore mentioned.

Open book credit has supplanted the promissory note as representative of debt to such an extent that it is now the leading factor in all mercantile credit transactions. If these accounts are overdue it is a sign of weakness, for the merchant cannot afford not to take his cash discounts, and the fact that he allows his accounts to run over their time indicates slow collections, poor credit or slack management, and is a danger signal.

A firm should not pay its obligations by note and at the same time have accounts payable much in evidence. It should adhere to one of the two methods, and if it borrows on single-name paper it should not issue promissory notes. In some statements the accounts payable represent merely accounts in process of audit, sometimes barely a day's purchases, which is a sure sign of good management.

In a department store statement we would not expect to find bills payable, but accounts payable in pro-

portion to the business done. Assuming the terms to be 2 per cent., ten days, if the unpaid bills represent ten days' purchases it would not be out of proportion.

Having the amount of bills payable, and accounts payable, we have all the quick liabilities, for any other obligation is of a different nature. The liability represented by capital stock need not be unduly considered, for it is the last liability of the firm to be enforced.* The bonded debt is spread over a definite time, and the other obligations are incidental to those represented by the quick liabilities, with which commercial paper has most to do.

Real Estate

Real estate in any statement can only be considered as backbone, for it has a slow market and is subject to various opinions as to its value. A loft building in a congested district will have a value all its own, and easily determined by the rental received, but a specialized factory on the outskirts of the city will have a limited utility and uncertain worth. In the buying of commercial paper, and the analyzing of a credit statement it is best to eliminate the real estate altogether, for if the quick assets are not two to one, as a general rule the risk is unwarranted. Where real estate does form a prominent part of the statement the appraisal should be by a recognized authority and so stated in the statement. The mortgages may be listed as liabilities, or deducted from the appraised value of the real estate and only the *equity* listed.

Good Will, Patents, Trade Marks, Etc.

Good will has aptly been defined as "the tendency of trade to follow an established course." It is a plant of slow growth. It is the result of years of activity and

*The element of stock is important, however, by reason of the fact that unless the proprietors (stockholders) have risked something, they cannot expect the lending public to risk anything. Therefore, if the stockholders have not invested two dollars to every one of borrowed money, it is evidence that they have little confidence in the concern, and it is a good name to leave alone.

fair dealing, supplemented by quality. So long as the quality is manifest and service efficient, such an article as Uneeda Biscuit can be depended upon to sell. A household name has a commercial value. The patronage of a store or restaurant is a valuable asset.

This tendency of trade to come back, can be capitalized, bought and sold as merchandise, and often figures prominently in a credit statement. Patents which control certain articles and trade marks which are well known are also valuable. The label on a garment or in a hat has a certain worth which is recognized in all business circles. The latter items are often prominent in certain statements, but the value of either good will, a patent, or a trade mark is so uncertain that we can best eliminate them all from any consideration. Some concerns put a high, and some a low value on these elements. Take for instance the Goodyear Tire and Rubber Co. The name and the brand is so well known that it has a steady trade, but the company holds its patents and trade marks, at the nominal value of one dollar, which is obviously far beneath the true value; while on the contrary, a certain piano company with assets of nine millions puts in the good will, patents and trade marks at three millions, or one-third their total worth, while a stove company values its good will at $1,888,900 out of total assets of $4,366,700. A shoe company in Missouri holds its good will, trade marks and patents at $12,750,000 out of total assets of $27,750,000. Patents are sometimes listed at cost, and trade marks and good will at an amount which the concern figures it can safely pay dividends upon, and they constitute the "water" in the company in many instances.

Machinery, Furniture and Fixtures

Machinery, furniture and fixtures have such limited utility that they add no material weight to a statement. Machinery is especially depreciable and often has to be scrapped by virtue of becoming obsolete, and can be safely considered only as junk. Fixtures of all kinds

will shrink heavily in any liquidating process, and therefore these items are not to be regarded as a marketable factor, but are allowable if proper depreciation is provided for.

Other Investments

Other investments will include bonds and stocks of various kinds, listed and unlisted, and others of allied corporations controlled by the borrowing concern. It is not the general rule for corporations issuing commercial paper to hold a large amount of marketable securities; but in the ramifications of business, large quantities of industrial stocks and bonds are so held whose value is problematical, and can be ascertained only from an intimate knowledge of the inside facts.

Profit and Loss

Profit and loss account is merely an accounting term to denote the difference between assets and liabilities. It may or may not be an overplus at all, but a padding. If, for instance, the merchandise is inflated, the surplus will be correspondingly inflated. If values are honestly stated, profit and loss or surplus, as it is sometimes called, is the amount that would be left over if the business were liquidated, and the assets realized the scheduled values. If the audit is conservative, depreciation allowed for, the inventory safe, repairs and maintenance charged to operation and not to capital, we may conclude that profit and loss represents accrued earnings, undistributed, and reflect credit upon the management.

Capital

The capital of a concern is the amount of contributions from the proprietors. It may be represented by the cash contributions of those who constitute the concern, whether partners or stockholders, or it may consist of contributions in the form of real estate, patents, good will, merchandise, etc., for which payment has been made by crediting the donor with the amount as his

contribution to the capital fund, or by the issue of shares of stock.

In corporations the "capital stock fund" is a stated amount which the law requires as a basis of operation, and the minimum amount is named in the law. But in firms and sole proprietorships it is the excess of the assets over the liabilities. For credit purposes, however, it is customary to consider only the working capital, which is the excess of quick assets over quick liabilities.

It is readily to be seen that if the original fund is used for the purchase of land, buildings and machinery, it is dead and of no particular use for current purposes; but capital invested in book accounts, bills receivable, etc., is turning into cash all the time and is properly considered the working capital of the business.

We can appreciate the force of the foregoing by a simple illustration. Let us suppose that a merchant has had one of his receivables paid. He has a cash fund with which to reduce his outstanding bills payable, settle an account payable, or buy more goods. If he has an account receivable paid, he has funds for like purposes. And inasmuch as in most cases he has two dollars due *to* him against every dollar due *from* him, he has a stream of two coming in and only one going out. This is the "liquid capital" that is running in and out all the time, and this is what turns the wheels of business.

Contingent Liability

Owing to the fact that old and large firms whose credit standing has been of the highest in both banking and mercantile circles have been wrecked through contingent obligations, the element of contingent liability is being given more careful attention in banking circles. By the same process that an individual may lose his entire property through indorsements for others, with or without profit to himself, trading concerns may be seriously embarrassed through indirect obligations assumed in the course of their business dealings. A common illustration of this is found in railroad circles,

where one company assumes and guarantees to pay the interest on the bonds, or dividends on the stock, of the road tributary to it, and by virtue of the burden thus assumed, becomes embarrassed thereby. The best paper houses are now inquiring carefully into these indirect, yet dangerous, obligations, and are undertaking to eliminate the same from the statement as fast as possible. Where this liability exists the item should be considered as a weakness in making the analysis.

Depreciation

Inasmuch as machinery is constantly wearing out and the plant suffers the ravages of time, it is essential that such losses be provided against by a scaling down of the plant and machinery to the extent that the cost will be entirely replaced from earnings within the expected life of the property. Thus, a machine which will in all probability wear out in the course of five years, should be charged off at least one-fifth each year. All well-managed concerns provide for such depreciation.

The better way is to carry the plant and machinery at cost, less depreciation, which shows on its face that it has been subjected to the scaling process, and does not need the auditor's certificate to this effect.

THE PURCHASE OF COMMERCIAL PAPER

In selecting commercial paper certain simple and fundamental rules will be found helpful:

(1) Scatter the risks. The old adage, "Do not put all your eggs in the same basket," is trite but true, not only as to the character of the business, but also as to the location. For instance, no bank should confine itself to millinery paper, or drug paper, or grocery paper, or hardware paper, however good each class might be; for any happening that would be costly to the trade itself, would affect the paper. If a bank were to loan largely on millinery paper, a backward season or a sudden change of styles might work havoc with the trade and affect the prompt payment of the loans.

The risks should also be scattered territorially. While a farming section might be prosperous, a manufacturing section might be experiencing slack times. New England might be highly prosperous, while the South might be in the throes of a cotton crop failure; therefore, it is wise to buy limited amounts in various parts of the country, in various lines, for reasons that need not be extensively explained to be apparent.

(2) Buy the paper of large concerns—those having total assests of not less than a quarter million; because in large concerns the management is apt to be better and the methods more aggressive.

(3) Buy paper only of concerns whose quick assets are at least two to one. The standard statement makes provision for segregating the quick from the slow assets for the purpose of quickly determining the ratio. The quick assets consist of:

Cash on hand and in banks.
Bills Receivable.
Accounts Receivable.
Merchandise.

The quick liabilities consist of:

Accounts Payable
Bills Payable—
(a) To trade creditors.
(b) To banks.
(c) To others.

It is readily to be seen that a firm must meet its current obligations from its current receipts, and a going business is the best security; but inasmuch as every loan whether a mortgage loan, or a loan upon open credit, should be based on the assumption that it might go wrong, there must be a margin of safety. Therefore, if a firm has two dollars in sight for every dollar it owes, if it realize but fifty cents on the dollar it will still be able to make good its obligations. There are lines where the ratio should be larger and where it may be smaller. For instance, a stock of meats and groceries may be turned into money with very little shrinkage, and on short notice, and a ratio of one and one-half to one might be sufficient; while a stock of dry goods, some unseasonable, would shrink considerably more if sold under the hammer, and from two to two and a half to one would be safer.

It is a good rule also to buy paper based on necessities, rather than on luxuries, for the simple reason that people must continue to consume the necessities of life even though luxuries are foregone. Even a great war will not prevent the consumption of necessities, while it will seriously curtail the sale of luxuries. This has been learned from experience and reason confirms the conclusion.

Checking Commercial Paper

Before deciding upon a purchase of paper it is essential that the risk be determined from other sources than the credit statement. However good a proposition may be, as determined by an analysis of statement, it is necessary to know that back of it is the indispensable

quality of moral worth, good standing in the trade and an honorable record.

This can only be done by a process of "checking," which merely means ascertaining from various sources the prevailing opinion of the borrower. Therefore, banks the country over are exchanging credit information, this information including their experience with the paper, if an outside bank, and with the borrower as a depositor and local borrower, if a home bank. No one is so well qualified to judge the standing of a concern as the borrower's banker. Having dealt with the concern intimately, and having knowledge of its local affairs, the habits of the members, their average balances, and their business methods, the banker can speak with authority as to the moral aspect, and banks are freely extending this information for the common good.

It becomes needful also to know the opinion of the firms dealing with the borrower,—how the firm pays its bills, and its record as dealing man to man. If a concern has dealt with a borrower for a number of years, receiving payments as agreed, the firm taking advantage of the cash discounts, special sales and other concessions which can be obtained in all well-managed business, it is a certain indication of strength; but if the firm is slow in payment, tricky in its methods, and unreliable in its dealings, it is sure to be a doubtful risk from the banker's view point.

Let us assume that we have funds to invest and decide upon commercial paper at a satisfactory rate and a certain maturity; say 4 per cent. paper maturing in December. Our first step will be to communicate with a broker who will submit various statements such as appear on the following pages. We decide upon certain lines such as dry goods, groceries, meats and hardware.

Our next step will be to analyze the statements and if they meet with our ideas of what sound commercial paper should be, we proceed to "check the paper."

Before we would feel justified in purchasing the paper of a concern, we would want:

(a) An audited statement that analyzes well.
(b) Favorable bank reports from at least two banks.
(c) Favorable trade reports.
(d) Dun's or Bradstreet's report.

We decide upon $10,000 of the paper of Doe & Doe, wholesale millinery, and take it on a "ten-day option"—that is, with the privilege of returning it if it does not check to our satisfaction. We ask Bradstreet's for a report, write two banks given as references and two concerns in the trade. We receive the following information:

BROKER'S STATEMENT

DOE & DOE, INC., CHICAGO
Wholesale Millinery

December 31, 1916

Resources

Cash on hand and in Banks			$98,009.88	
Notes Receivable			1,798.03	
Accounts Receivable		$354,304.69		
Less Disc. Res.	$15,943.72			
Less Bad Debt Res.	10,000.00			
		25,943.72		
		$328,360.97		
Suspense Accts. estimated		9,389.69		
			337,750.66	
Inventory of Merchandise		$192,740.56		
Inventory of Supplies		1,753.75		
			194,494.31	
				$632,052.88
Furniture and Fixtures		$57,639.27		
Less Depr. Reserve		14,794.00		
			$42,845.27	
Advances on acct. Spring, 1917:				
Duties and Charges		$17,001.11		
Traveling Expense		4,130.03		
Salaries		945.52		
Insurance		1,752.13		
Rent Account		3,666.72		
Commissions		663.42		
			28,158.93	
Good Will			50,000.00	
				121,004.20
				$753,057.08

Liabilities

Notes Payable			$100,000.00	
Merchandise Accts. Payable		$69,941.39		
Less anticipated Disc.		965.73		
			68,975.66	
Commissions			14,501.95	
Taxes			951.66	
				$184,429.27
Capital and Surplus Profits				568,627.81
				$753,057.08

(Signed) DOE & DOE, INC.,
By John Doe, *President.*

Bank Accounts: Old National Bank, Chicago; First Trust Company, New York.

Trade references: Blank Hat Co., New York; London Feather Co., Chicago.

We have audited the books of Doe & Doe, Inc., Chicago, and we certify that the above statement, in our opinion, correctly sets forth the financial position of the company at December 30, 1916.

(Signed) PRICE, WATERHOUSE & CO.

BRADSTREET'S REPORT ON DOE & DOE, INC.

403-1-23-17
DOE & DOE, INC., Wholesale Millinery, 12 So. State St., Chicago
JOHN DOE, President
HENRY DOE, Vice-President
WILLIAM DOE, Secretary and Treasurer
DIRECTORS, above, with A. B. C. and D. E. F.

The following statement was received by mail on November 22, 1917:

FINANCIAL CONDITION JUNE 30, 1917

Assets

Cash on hand and in banks		$60,306.36	
Notes receivable		1,149.85	$61,456.21
Accounts receivable		$380,345.94	
Less discount reserve	$17,115.57		
Less bad debt reserve	10,000.00	27,115.57	
		$353,230.37	
Suspense account estimated		4,738.02	357,968.39
			$419,424.60
Inventory of merchandise		$311,510.36	
Inventory of supplies		2,714.99	314,225.35
Furniture and fixtures		$58,571.34	
Less depreciation reserve		17,722.57	40,848.77
Advances on account, Fall season:			
Duties and charges		$25,855.25	
Traveling expenses		5,210.80	
Salaries and commission		4,263.82	
Insurance		1,143.85	36,473.72
Good will			50,000.00
			$860,972.44

Liabilities

Notes payable		$100,000.00	
Loan account and interest		30,322.50	
Merchandise	$83,453.71		
Less discounts	2,593.32	80,860.39	
Commissions		7,189.44	
		$218,372.33	
Reserve for commissions	$15,417.65		
Reserve for taxes	1,204.55	16,622.20	
			$234,994.53
Capital and surplus profits			625,977.91
			$860,972.44

Sales for the season, $1,499,034.89.

(Signed) JOHN DOE, *President*

Here we have comparative statements six months apart. We find that the ratio of quick assets to quick liabilities in the Dec. 31 statement to be about three and one-half to one, and without here going extensively into the details of the analysis, make the following comparative comment: Cash has decreased. (In December millinery bills should be well liquidated.) Notes receivable have decreased—a good sign. Accounts receivable have increased $26,000. Inventory in December, $194,-494; in June, $314,225. Furniture and fixture account has been scaled $2,000—another good omen.

Notes payable are in the same amount. The firm has evidently borrowed $30,322 for current needs. It has $12,000 more in book accounts on its ledgers. Reserves about the same. It has increased its stock by $120,000, through borrowed money and book accounts payable of $12,000, and added $57,000 to its surplus and undivided profits. It thus far checks up well. Let us see what Bradstreet's and the other references say about the firm, to confirm our conclusion that it is well managed and prosperous.

Bradstreet comments as follows:

The company is believed doing a successful business and making progress and allowing for depreciations are estimated at about $500,000.

TRADE OPINIONS: Eight firms consulted, credit various amounts from $2,000 to $25,000 on sixty days, and payments are prompt and anticipated.

ANTECEDENTS: According to certificate filed February 11, 1909, this company was incorporated under Illinois State laws and succeeded firm of same name. The president has been identified with this line since 1858. Was senior partner of Doe & Doe; that firm was succeeded May 24, 1907, by the Doe Trading Co., which name was again changed to Doe & Doe, January 25, 1908. Henry and William Doe are sons of the president and the others are former employees for many years. All take an active part in the business.

FIRE RECORD: The company does not appear to have ever suffered loss by fire.

GENERAL REMARKS: The company is understood to be doing a large and successful business. The officers are highly regarded personally.

The banks write as follows:

FIRST TRUST COMPANY

NEW YORK, June 27, 1917.

First National Bank,
New York City.

Gentlemen:

Doe & Doe, referred to in your letter of June 25, have been esteemed clients of ours for some time and have always maintained an entirely satisfactory account.

We have a high regard for the personnel of the company and consider the moral hazard, in this case, to be very good. They have always maintained substantial balances with us and have never approached us for any business favors; however, we feel disposed to grant them a liberal line of accommodation, and we would not hesitate to purchase their note in a substantial amount at the present time.

All the information we have received from time to time regarding the company has been in their favor and we would regard the purchase of their obligations as being a desirable banking investment at this time.

Yours very truly,

A. C. B.,
Manager Credit Department.

THE OLD NATIONAL BANK

CHICAGO, June 27, 1917.

First National Bank,
New York City.

Gentlemen:

Your letter of the 26th is received.

Doe & Doe, of this city, have been customers of this bank for many years. This is an old reliable millinery firm, with a good record. The company makes a good statement. They keep very good balances with us and have not borrowed here in two years. We should, however, be glad to loan the company a round amount, and believe their paper offers a good opportunity for investment.

Assuring you that it is a pleasure to serve,

Yours very truly,

V. B. J.,
Assistant Cashier.

Note.—In answering credit inquiries banks as a general rule have printed on the letter-head a statement to the effect that the information is given as a courtesy, and neither the bank nor the writer assumes any obligation by way of warranty as to the statements contained therein, under the doctrine of *caveat emptor*,—let the buyer beware. It is merely the expression of an opinion.

We receive the following letters from the trade:

First National Bank,
New York City.

Gentlemen:

In reply to your inquiry enclosed, will say we have sold this account during the past two years with a very large amount of credit, running as high as $43,000. They have promptly discounted all bills under our terms and are satisfactory in every respect. As a matter of fact, we have an order even larger than this for fall delivery and will be very glad to make the shipment, for we believe they will promptly cover all purchases under our terms.

Yours very truly,
BLANK HAT CO.

First National Bank,
New York City.

Gentlemen:

Replying to your inquiry of the 26th ult., regarding Doe & Doe, we beg to say that we have done business with this firm for a number of years. Their purchases run from two to three thousand dollars a month during the season, and are paid within the discount period. All our relations have been most satisfactory.

Yours truly,
LONDON FEATHER CO.

Being well satisfied on all points, we conclude to retain the paper as a semi-liquid asset, until maturity.

BANK AND TRADE ACCEPTANCES

The fundamental distinction between European and American banking lies in the difference between the evidences of indebtedness which constitute the item of "loans and discounts" in the bank statements. In European countries *time bills of exchange* form a large part of the resources of the great banks, while in the great American banks, *call loans* based on stock exchange securities constitute the major part of the assets.

The European banks employ their funds largely in what is known as bankers' bills,—that is, bills drawn on bankers and *accepted* by them on behalf of their customers in accordance with credit arrangements previously made.*

The obligation which the banker assumes in acceptance credit is that he will accept bills drawn on him for the customer's account up to a stipulated amount, if they comply with certain requirements. The writing of the word "accepted", with the banker's signature and date, is, in substance, a certification that the bill will be paid at maturity. It turns an *order* into a *promise*.

Acceptances Defined

A *bank acceptance* may be defined as "a bill of exchange, the acceptor of which is a bank or trust company or firm, person or corporation or company engaged in the business of granting bankers' acceptance credit."

A *trade acceptance* is a bill drawn by one merchant on another, and accepted by the drawee.

The bank acceptance is a *loan of credit* and does not involve money except in its final payment, at which time the party for whom the acceptance is made is under obligation to have on deposit with the bank funds sufficient to meet it.

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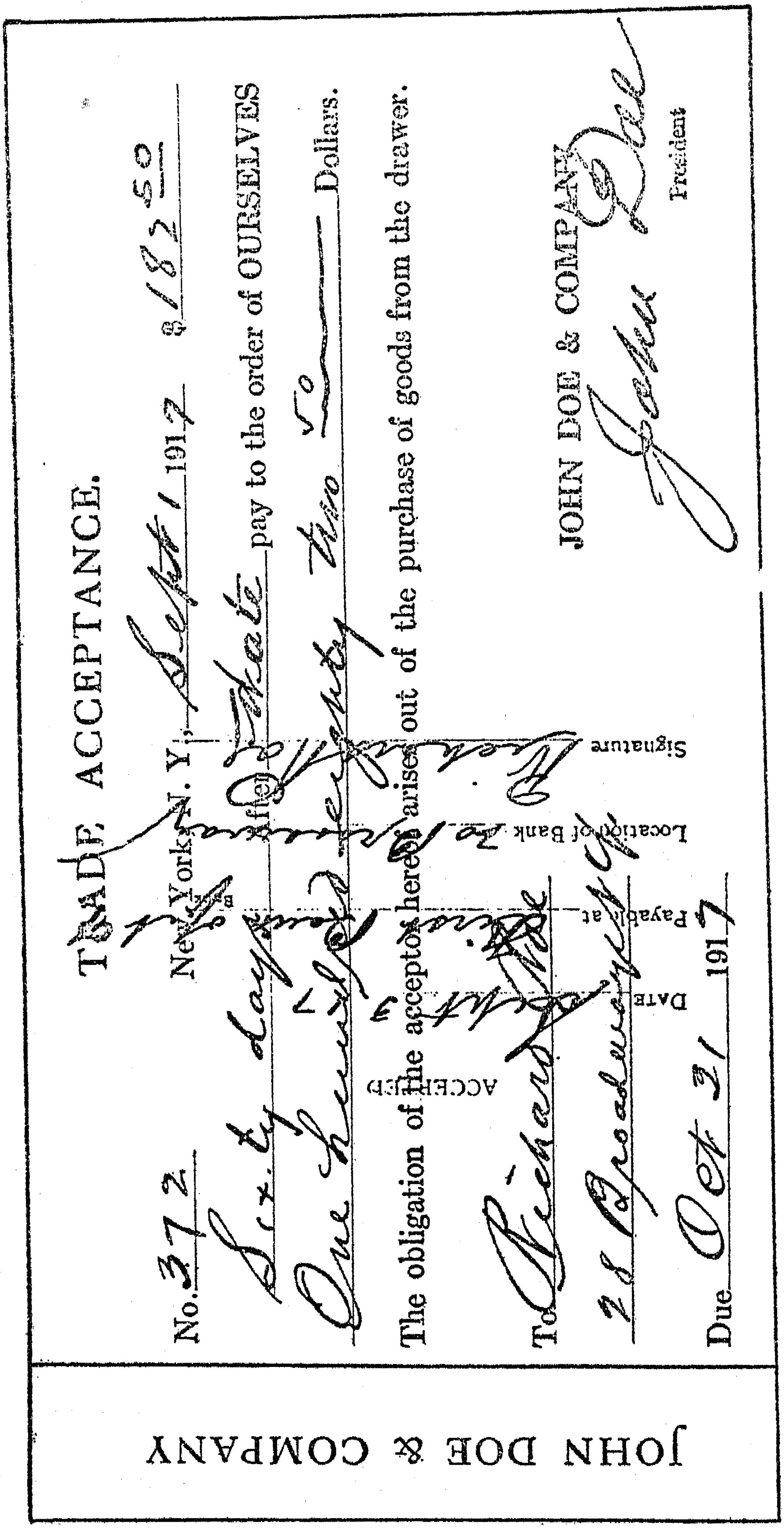
*The acceptances of the London banks amount to about $100,000,000 in normal times. This means they lend *credit* to that extent without depleting reserves, and can still loan *cash*.



TRADE ACCEPTANCE.

No. 372 New York, N. Y., Sept 1 1917 $ 182 50/100

Sixty days after date pay to the order of OURSELVES

One hundred eighty two 50/100 Dollars.

The obligation of the acceptor hereof arises out of the purchase of goods from the drawer.

To Richard Roe

28 Broadway N Y

Due Oct 31 1917

JOHN DOE & COMPANY

John Doe

President

ACCEPTED

DATE

Payable at

Bank

Location of Bank

Signature Richard Roe

JOHN DOE & COMPANY

TRADE ACCEPTANCE

The trade acceptance has on its face evidence that it arises out of a bona fide transaction. It covers the specific value of the merchandise, payment for which is not yet due, but for which the buyer agrees to pay at a stated date. It either directly refers to an invoice, or otherwise bears *prima facie* evidence that the obligation is made for a purchase and does not cover a loan or a past due account.

The trade acceptance has been known in England since the reign of James the First, and in France since 1462, where they were used at the Great Fair at Lyons. Some historians attribute their origin to the Florentine merchants who were expelled from Italy to Amsterdam, whence they drew bills on Florence for the value of the estates left behind them.

The banker who thus accepts for his customer secures himself in various ways. It may be the general credit worth of the customer, the same as if he were to discount the customer's promissory note. If the credit risk is an importation of goods, the banker secures himself for his acceptance by the lodgment with him of certain documents covering the shipment, which he turns over to the customer upon trust receipt, and which are essential to the possession of the goods. The trust receipt vests title to the goods in the banker, but gives the customer the right to turn into manufactured articles or to resell, from the proceeds of which the acceptance is met at maturity. If the acceptance arises out of a domestic shipment, the security would lie in the bill of lading, and if it represents goods in storage, the warehouse receipt.

The fundamental principles under which the acceptance operates are: (1) That the seller shall have absolute assurance that the goods will be paid for on presentation of the documents representing the shipment, which is covered by the *letter of credit*, which guarantees to the seller that the goods will be paid for on arrival; (2) that the bank issuing the letter of credit and making the acceptance in accordance with its terms shall be protected. This is provided for in the *bill of lading, warehouse or trust receipt,* which places the legal title to the

goods under the control of the bank, the physical possession of which may be in the buyer; (3) that the buyer shall have opportunity to sell the goods or turn raw material into finished products to provide funds to meet the obligation of the bank when it is due. This is provided for under the terms of the *trust receipt,* which allows the buyer possession of the goods, although he has no title and cannot make good delivery without the release of the bank. In other words, the buyer is merely the trustee of the bank in making sales for its account. All parties are thereby benefited. The seller has cash payment, the buyer the possession of the goods, the bank is fully protected, and wherever the cost of money enters into business transactions, the benefits accrue by reason of the low rate of interest these acceptances will command.

The agreement which the customer makes with the banker is, that he will be held harmless for his acceptance in so far as the customer is concerned; to place the banker in funds at least three days prior to the maturity of the acceptance, to meet the same, and to pay him a commission for his services and loan of his credit. The cost to the customer is the prevailing rate of interest on paper of like nature, plus the commission for the acceptance.

While the National Bank Act does not specifically prohibit national banks from making acceptances, the courts have decided that a national bank has no power to make them. With this avenue of borrowing closed to them, the business houses of this country could only borrow of their local banks either on their own promissory notes or those of their customers discounted at the bank. Finding this field too narrow, and the rates of interest often higher than obtained in money centers, merchants and manufacturers placed their notes through note brokers who were in touch with banks and bankers having funds to invest for short-time periods. This process has developed what is now known as *single-name paper* and *receivables*, in contrast to the European *bill of exchange.*

The Money Market

The time bill of exchange, accepted by a bank of high standing is a security of well known quality, while the single-name paper is only as good as the issuing house, and therefore of no standard quality. With the time bill of exchange of uniform quality, there is obviously a public market in the same sense that there is an open market for government bonds, while in single-name paper, of various qualities, there can be only such market as exists by virtue of banks willing to buy the paper.

The *money rate,* or money market, in European countries is therefore the rate at which these bankers' acceptances will be discounted, while in this country, the *money market* is the rate at which money can be borrowed in New York on Stock Exchange collateral. The fluctuation in money rates in Europe is due to the demand and supply of bills, which arise from business transactions. If trade is brisk the supply of bills will be large; if slow, small. As the funds of the banks are depleted, the banks are unable, or unwilling, to discount except at advanced rates. If trade declines, less credit is desired, fewer bills come into the market, the demand for investment is more keen, and the rates naturally decline. At first sight it would seem the reverse of this process, but it is axiomatic that a bank having surplus of money will invest it at lower rates than if it has a diminished reserve which can only be touched by attractive rates of interest. Low rates of interest are a business stimulus, high rates a check.*

This contrast is more plainly apparent when it is considered that in Europe money rates fluctuate by fractions, while in New York money rates are subject to violent fluctuations, which register the speculative and not the business demand for money.

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* Since the introduction of the Federal Reserve Banks, however, the money market may also be said to be the rate at which the Federal Banks will rediscount both commercial paper and acceptances and which rates are published daily.

Trade never expands and contracts by sudden bursts. It is a gradual process. And as trade is a steady upward or downward movement, so also is the supply of bills, and as a consequence the demand and supply of money. Moreover, in a steady market funds move as the tide ebbs and flows. If France owes England more than England owes France, money will naturally flow to England from France in settlement. If the London market is higher than the French, investment funds will seek the English market. Money always flows to the point of profitable investment. If the Paris discount rate is 2 per cent., and the English 2½ per cent., the French bankers will remit money to London for investment there. This increases the volume of English money and the London rate will fall. As French funds become less, the rate rises, thus checking the outflow of French money to England.

In New York a speculative movement may come suddenly, making a brisk call for funds, and a rise of 3 or 4 per cent. is unimportant in a speculative boom. Profits in speculation being larger than in trade movements, only a heavy advance can check undue speculation. And such movements being unstable and undependable, do not tend to attract money from abroad.

Without bankers' acceptances we cannot have a stable discount market, and without a discount market we cannot hope to profit by the ebb and flow of funds such as obtains in European money centers. The European banker would not invest in our commercial paper as now constituted, for he knows little of its worth. But he does know of our banks, and until we have the acceptance market fully developed we cannot hope to enlist the foreign banker in our financial operations.

European and American Banking Methods

One of the marked differences between European and American banking methods lies in the rediscount features of the several banking systems and we cannot get a clear conception of what is hoped to be accomplished

through the introduction of some of the European ideas unless we understand the fundamental principles that obtain abroad in the matter of commercial paper. Inasmuch as the Federal Reserve Act is obviously patterned after those features of European banking that best fit into our methods and customs, we must understand the salient features of European banking in order to appreciate the vast power for good embodied in the Act.

The principal financial markets of the world are London, Paris, Berlin and New York. London is and has been for many years the world's financial center and leading discount market. By the term "discount market" is meant that a bill drawn on London, or any of the large banks or discount companies of London, or offered to them, can without delay be turned into money (sold).

The international trade of the world is financed through London. The products of the Orient, South America,—the world, are paid for through London credits. Paris and Berlin are concerned mainly with the trade of France and Germany, but also figure largely in world-wide affairs, while New York has been the clearing house for American trade, and through the influences of the war is fast becoming a world money center.

The reserves of the European banks are not fixed by law as is the case in this country, but each bank is left to itself to carry as much as experience dictates, the true reserve being in the form of instruments that are readily turned into cash at the central bank. A security that can at a moment's notice be turned into a circulating medium is to all intents and purposes equivalent to cash, and is less costly to carry. Through their system of branches the whole country is covered by these rediscount and collection services, for which the charge is a minimum interest, as for instance, the Bank of France charges a minimum of five days interest. Thus for the last five days of the life of the bill, the French banks charge the bank rate, which is usually higher than the local rate; therefore, on a bill having sixty days to run,

the discount rate for fifty-five days would be the market rate and for the last five the bank rate, allowing the bank to rediscount or collect through the central bank.

The London discount system consists of the Bank of England, the great joint stock banks, private banks, the bill brokers and the merchant bankers, together with the branches of the colonial and foreign banks, all of which have branches in London.

The Bank of England is represented here by the Federal Reserve Bank, the joint stock and private banks by our national and state banks and trust companies, and the bill brokers and discount houses by our note brokers or commercial paper houses, the distinction between the two being that the London house deals with bills of exchange, domestic and foreign, while our commercial paper houses deal in promissory notes.

These merchant-bankers were at first merely merchants, in high credit and known the world over, and on whom a bill drawn had a world-wide credit standing. Being in such high credit, it developed as time went on, that they were induced to accept for other merchants, this function proving so profitable that their accepting business displaced their mercantile dealings and thus they became accepting instead of trading houses.

The Lack of Acceptance Privileges

The lack of acceptance privileges has not only hampered our foreign and domestic trade, but has prevented our banks, both city and country, from using their credit profitably. The country bank has, as a rule, more funds than local demands can absorb, and must find an outlet for its surplus money. These surplus funds may at the present time be deposited with the city correspondent or reserve agent, the Federal Reserve Bank of the district (without interest), invested in bonds of various sorts, or in the purchase of commercial paper. Balances with reserve agents are unprofitable, usually 2 per cent. Federal Reserve balances are a dead loss, so that it devolves upon bonds

and commercial paper to make the surplus funds profitable.*

In spite of the admirable record of commercial paper, its worth as a banking investment depends upon the checking process elsewhere described, and has a small element of speculation.

In the majority of instances, the country bank depends upon the advice of the city bank for its commercial paper purchases. The acceptance privilege will give the country bank the opportunity of purchasing the acceptances made by the large city banks, at little or no risk to itself, and at the same time make acceptances for those of its customers whom it may deem worthy, and thus offset in a measure the loss that is confronting the country banker in exchange charges, which, under the present movement to put the country on a par basis, is inevitable.

Moreover, it will provide the country bank as well as the city bank with a form of security that is easily discountable at the Federal Reserve Banks. In the rediscount of commercial paper holdings, or of its own discounted paper, under the old regime, such an accommodation would be made by the rediscounting agent largely upon the credit of the bank offering the paper for discount, the makers, especially home concerns, being unknown to the city correspondent. But in the rediscount of acceptances,* the credit would be gauged by the quality of the acceptance and would not involve the credit of the discounting bank except as a secondary consideration. It is the policy of foreign banks to rediscount their paper of short maturity and of the central banks to favor such short-time instruments by a lesser rate, thus giving the central bank an exceedingly liquid body of discounts that are rapidly turning into money at all times.

It has been claimed with much merit that the lack of

* Members of the Federal Reserve banking system are now required to carry a stipulated reserve with the Federal Reserve Bank of the district, the cash on hand and balances with correspondents being optional.

* Other than its own acceptances.

acceptance facilities has placed our importers at a disadvantage in the importation of goods, since they are unable to finance their imports upon as favorable a basis as is possible with importers abroad who have bank acceptance credit.

If the above principles are understood from the brief survey of the field of European banking, it will be seen that we have had no discount market and no acceptances as the term is understood abroad. Our banks do not rediscount and if so it is a sign of weakness, or sudden call for funds and not a feature of the banking business. Our promissory notes do not circulate. They are taken as a fixed asset until maturity and if funds are needed other mediums are employed than the rediscount of the paper holdings of the banks. Our country banks needing funds, do at times rediscount with their city correspondents, but it is a courtesy and not a right, nor a part of their regular operations. All this will, of course, change as the acceptance becomes a feature of American finance and the Federal Reserve Bank fulfills its rediscount mission.

The Operation of a Bank Acceptance

The *modus operandi* of a bank acceptance will be seen by a simple illustration. An English cotton spinner, desiring to purchase cotton in the American market, arranges with his banker to accept bills drawn on him by the American shipper at sixty or ninety days sight. When the cotton is shipped, the seller draws as agreed, attaches the documents,—insurance, invoice, bill of lading, etc., and sells the bill to a New York bank, thus receiving immediate payment for his cotton. The purchasing bank is protected by the knowledge that the bill will be accepted upon its arrival in London or Liverpool. The New York bank forwards the bill to its correspondent abroad, which presents the same for acceptance. When so accepted, the documents are delivered to the bank making the acceptance, which in turn delivers to the spinner, thus putting the cotton in his

Credit No. ....

....

Guaranty Trust Company of New York
Foreign Department

New York, ... 191

....

....

Gentlemen:

We hereby authorize you to value on ....
.... for account of ....
up to an aggregate amount of ....
available by your drafts at ....
against shipment of .... to ....
Insurance ....

Bills of Lading for such shipments must be made out to the order of the Guaranty Trust Company of New York, unless otherwise specified in this credit.

CONSULAR INVOICE AND ONE BILL OF LADING MUST BE SENT BY THE BANK OR BANKER NEGOTIATING DRAFTS, DIRECT TO THE GUARANTY TRUST COMPANY OF NEW YORK, NEW YORK, UNDER ADVICE TO ....
....

The remaining documents must accompany the drafts drawn on ....
....

The amount of each draft, negotiated, together with date of negotiation, must be endorsed on back hereof.

We hereby agree with bona fide holders that all drafts drawn by virtue of this Credit, and in accordance with the above stipulated terms, shall meet with due honor upon presentation at the Office of .... if drawn and negotiated prior to ....

Guaranty Trust Company of New York,
by

....

....

N. B. Drafts drawn under this Credit must state that they are "drawn under Letter of Credit No. ....
Dated .... "

A11552

LETTER OF CREDIT

possession. The accepted bills are readily discounted in the open market and the proceeds placed to the credit of the New York Bank. The purchase of the bills in the first instance by the New York bank does not involve the use of funds, for the New York bank can, upon the purchase of the bill, immediately sell its banker's drafts against the credit so created, thus placing the actual money or its equivalent in its possession.

In the absence of such facilities, the American importer is given the choice of paying for his goods when ordered by draft purchased as above indicated, against credits created abroad, but in order to obtain the funds to purchase a draft he may have to borrow on his own note, in the absence of which the shipper must finance the transaction, for which he must of necessity be paid, either directly or in the increased price.

The shipper in the latter instance would draw on the importer and hand the draft to his banker for collection. If the shipper is not in good credit, his bank would not buy the draft, and payment would be delayed until the draft could be collected and remittance returned. Our importers have got around the cumbersome practices heretofore by having their banks arrange with their London correspondents to accept bills drawn on them for American imports. Such an arrangement would work out as follows: In a coffee shipment, for example, the shipper would draw his draft in South America on London, and readily sell the same, because of the London acceptance which would follow. The South American bank buying the bill would forward to London for acceptance. When accepted the documents are released. The London bank forwards the documents to the New York bank which opened the credit for the importer, which in turn delivers the documents to the importer under trust receipt.

Twelve days prior to the maturity of the bill, the New York bank will present a statement to the New York importer showing the amount in Sterling that must be remitted to London to cover the bill falling due. In so doing the importer finally makes payment for his goods.

This process is costly to the importer, for he must pay his bank a commission for arranging the credit, and the London bank for its acceptance. The importer also takes the risk in exchange rates. If, for instance, the rate is 4.86 when the credit is opened, when payment falls due the rate might be 4.88, a considerable tax in large operations. Thus we have been paying London a large yearly tribute for our inability to make our own

Guaranty Trust Company of New York

140 Broadway

Fifth Avenue Office
Fifth Avenue and 43rd St
Cable Address "Kotronce"

Capital $ 20,000,000. Surplus $ 20,000,000.

Cable Address: "Fidelitas"

London Office
33 Lombard Street, E.C.
Cable Address "Garantus"

Please address reply to
Guaranty Trust Company of New York
Foreign Department

E. Fleischmann
Assistant Manager

New York. date

Mr. A. B. Jones & Co.,
26 Liberty Street,
New York City.

Gentlemen:

We received today from the Bank of Jericho, etc., the following cable message:

"Pay A. B. Jones & Co. 26 Liberty St., New York against delivery of documents good shipped Naegeli.

L 2,150

(Two thousand one hundred fifty Pounds Sterling)."

of which kindly note.

We require hereunder against our payment the relative documents which we understand have to consist of full set of bill of lading made out to order and endorsed in blank or to the order of Bank of Jericho. marine and war risk insurance certificates, and consular and commercial invoices. In case you should have been instructed to deliver to us other documents, kindly communicate with us at your earliest convenience.

The above instructions, subject to revocation on the part of our principals, must be strictly adhered to in order to obtain payment. When referring hereto, quote our Ex. No._____

Yours very truly,

Officially signed

LETTER OF ADVICE

acceptances. But if the South American shipper could draw on the buyer in the knowledge that a large New York bank would accept, he could, when the American acceptance became internationally known, sell his drafts as freely on New York as on London.

There is no material difference between the operation of an acceptance arising out of a foreign transaction and one between trading firms in this country, except

in the currency in which the instrument is payable. In transactions cleared through London, the sum would be stated in pounds, and if cleared through New York it would be in dollars—"dollar drafts," as they are called.

In a domestic acceptance, the operation is essentially the same, and in an actual transaction would work as follows: Let us suppose a flour mill in Minneapolis has contracted with a New York flour merchant for a consignment of flour to be paid for, cash on delivery. The merchant in Minneapolis does not want to wait the ten days or two weeks while the flour is en route, neither does he care to trust the merchant on open account, nor take his note, both of which would involve borrowing on single-name paper, or discounting the note with the home bank, which may not be in position to lend to the full extent of the merchant's needs. Therefore, the New York merchant arranges with the Minneapolis merchant to draw a draft for the value of the flour on him at a designated bank, having previously arranged with the bank for a letter of credit as in the foreign transaction. If the goods are to be stored, the buyer will arrange with the bank to accept for him, and lodge with the bank the warehouse receipts as security. The bank will release the goods upon satisfactory security, or on the open credit of the flour merchant.

Varieties of Bills

The instruments through which world-wide monetary affairs are settled consist of—

(a) *International bills.* These are bills, drawn in one country and payable in another. They are the instruments of credit for inter-country dealings. They are usually "documentary bills," bills accompanied by shipping documents, insurance, etc., which are deliverable either upon acceptance of the bill or its payment. Such bills are drawn by shippers upon well-known banks and banking houses, which act as acceptors for their clients, taking for their security either the goods, other collateral, or the general credit standing of the consignee.

When so accepted by the bank or banking firm, the documents are released and the bill becomes "prime paper" in the discount market and commands the lowest discount rate quoted. The bill, which is accompanied

TRUST RECEIPT

New York City..19

Received from the GUARANTY TRUST COMPANY OF NEW YORK the following goods and merchandise specified in the documents described below, and in consideration thereof I/we hereby agree to hold said goods in trust for it and as its property and to deliver over to the said Trust Company or its assigns the ocean bills representing the goods and merchandise described below, or other negotiable documents, or the proceeds of the sale of the goods and merchandise set forth in the said documents; the delivery herein being temporarily made to me/us for convenience only, without novation, or without giving me/us any title to the documents, or the goods and merchandise they represent, except as trustee and agent for the said Trust Company and except to effect the exchange of said documents for ocean bills of lading, or to receive the proceeds thereof for the account of said Trust Company.

The said Trust Company may at any time cancel this trust and take possession of said goods and merchandise or of the proceeds of such of the same as may then have been sold, wherever the said goods and merchandise or proceeds thereof may then be found.

The said goods and merchandise while in my/our hands shall be fully insured against loss by fire and any other risk that said goods and merchandise may be subjected to.

I/we hereby agree to deliver said ocean bills of lading, or to pay the proceeds arising from the sale of the said goods and merchandise, to the said Trust Company on or before..

Signed.............................

TRUST RECEIPT

by documents that are released only upon *payment,* is not as negotiable as one that releases the documents upon *acceptance,* and does not enjoy so wide or so favorable a market as the prime bill.

(b) The *domestic bill* or *"trade acceptance"* is a bill drawn by the seller upon the buyer for a local transaction and is the chief form of paper in the European discount markets that arises from local dealings. When a sale is made and delivery of the goods follows, the seller draws his draft upon the buyer, who accepts it, or has his banker accept for him, returns the bill to the seller, who discounts it at his bank. This is in contrast with our method of open book account or promissory note form of settlement, the former predominating.

(c) The *commercial credit bill,* drawn by a customer upon his bank and by the latter accepted, after which it may be discounted in the open market. The French bankers usually require security in some form, or a satisfactory endorser, but the Berlin banks grant a considerable volume of uncovered credits, *"blanco bills,"* with or without security.

Whatever the form of the bill, or its origin, or the security back of it, when accepted by a leading bank and free from documents, it becomes prime paper and constitutes the main stock in trade of the European money centers. They are bought and sold as readily as merchandise. Through the medium of bill brokers, they pass from one lender to another, and in many instances find their way into the great central banks, where they form the chief item of assets; but wherever found they are considered the liquid assets of the holder by virtue of their rediscount privileges and wide market.

The bill that is purchased by a bank is regarded as a permanent asset until its maturity, but may be quickly rediscounted if the need requires at the central bank. In some instances the bill is rediscounted as a means of collecting at maturity, a large proportion of these bills being for a short time prior to maturity held by the central bank, and are also sent from place to place in the settlement of debts or the transfer of funds.

Acceptances may be divided into four classes:

(a) Import acceptances.
(b) Export acceptances.

(c) Domestic acceptances.
(d) Finance acceptances.

The first three are drawn by commercial houses, the last by banks and other financial concerns.

Drafts in Europe are not regarded as bills of exchange if made by other than a mercantile or trading firm, that is, a bill drawn by a doctor, lawyer, etc., would not be considered a true bill.

The purchasers of bills are:

(a) The central bank.
(b) The banking community at large,—banks, banking houses, investment concerns, brokers, etc.
(c) Irregular investors.

The reason bills are so widely held and in such popular favor is the fact that the holder knows that he can always discount good bills at the central bank, and in times of stress there is no rush to sell the bills, because of the assurance that they can always be turned into cash at the central bank.

The "Open Account"

The open account has been for a long time regarded as a pernicious element in our business world. It has two undesirable aspects: It leads to over-buying on the part of the debtor, and to over-selling on the part of the creditor. These two aspects may best be seen by a simple illustration. A manufacturer coming upon what he considers a bargain in raw material buys beyond his ability to pay. He in turn urges the jobber to over-buy. The jobber in turn, through his salesmen, urges upon the retailer the over-stocking, billing ahead as an extra inducement. The retailer in turn urges the goods upon the customer upon loose credits and gets out as best he can. The day for settlement comes. The retailer begs in vain of his customers for settlement, and he, of course, cannot pay if they do not. The jobber holds up the manufacturer and he in turn the banks. The whole business fabric feels the evil of forced and over-trading.

5

The only safe method is the consuming power of the public, aided and abetted by fair prices and honest advertising. It may all be traced to the open account, which is a debt without a fixed maturity, and no dishon-

TRUST RECEIPT

(DOCUMENTS FOR WAREHOUSING)

Received from THE GUARANTY TRUST CO. OF NEW YORK Bill of Lading per________ dated________ for the following goods and merchandise, their property, marked and numbered as follows:

imported under the terms of Letter of Credit No.______, issued by them for $\left\{\frac{\text{my}}{\text{our}}\right\}$ account, the said Bill of Lading to be used by $\left\{\frac{\text{me}}{\text{us}}\right\}$ for the sole purpose of entering the above described property at the United States Custom House at the Port of________ and of storing the same in the name, and as the property, of the said THE GUARANTY TRUST CO. OF NEW YORK, and subject only to their order, $\left\{\frac{\text{I}}{\text{we}}\right\}$ hereby agreeing to so store the said property and to hand the storage receipt for the same to the said THE GUARANTY TRUST CO. OF NEW YORK, when obtained.

$\left\{\frac{\text{I}}{\text{We}}\right\}$ ALSO AGREE to fully insure said property against fire, the loss, if any, payable to said THE GUARANTY TRUST CO. OF NEW YORK, and to hand to them the policies of insurance thereon.

Dated________191

(Signed)________

£________

A5196

TRUST RECEIPT (GOODS FOR STORAGE)

orable thing to delay its payment. It is a debt easy to create and difficult to collect.

The open account has been called "credit run wild,"—an engine without a governor; but the acceptance could be made the governor to control the workings of the

credit machine. It will prevent over-buying and over-selling. The buyer will curtail his purchases if he knows he must meet his acceptance when due, and the seller will hesitate to force a large order on an unwilling buyer. There is no process by which the book account can have the definite maturity that obtains in the case of negotiable instruments. The seller must sue on an "account stated" with all its legal defences, while the acceptance is complete in itself, and needs no other proof. It is a "carrier without luggage." The merchant or jobber whose portfolio contains well assorted acceptances may at all times raise this barricade against trouble, knowing they can be promptly discounted at the bank, and at a preferential rate, making the acceptance almost the equivalent of money.

For many years thoughtful men have regarded the open account as unsound in principle. The practice has led to the taking of unauthorized and unearned discounts. For example: A discount of 2 per cent. is commonly offered off the invoice for cash within ten days. We all know that money is not worth that much. When a merchant offers so great an inducement, he knows that the buyer, having large means or credit, can and will find some way to take advantage of it, and place himself in an unusual position as compared with his smaller competitor whose credit, perhaps, does not permit him to borrow as freely. When a merchant names a price, based on his invoice being discounted at a rate equivalent to 36 per cent. per annum, it is apparent that he must figure his price high enough to stand this discount, so that the discount is merely a bait to draw prompt payment. That is a heavy premium to offer for prompt payment, and yet it is one of the commonest of trade practices. Take again the merchant who is unable to discount. He must lose the benefit of the cash discount. Under the present system, the advantage is all with the buyer who has large credit at his bank, but who, in proportion, may be a poorer risk than the small buyer.

Open accounts have led to the unfair practice of re-

turning merchandise after shipment has been made, and prior to the due date of the open account.

The introduction of the trade acceptance would eliminate the necessity of selling accounts receivable, which,

Trust Receipt for Withdrawal of Collaterals

Loan of.................................. New York,..................................

Received from Guaranty Trust Co. of New York, the following property held by the Guaranty Trust Co. of New York, as collateral security:

....

....

....

....

....

....

and in consideration thereof WE/I hereby agree, acting as agents for the Guaranty Trust Co. of New York, in this matter, to hold said property in trust, for the following purpose only, viz;

....

....

....

with the understanding that WE/I will hand the

....

as soon as received to the Guaranty Trust Co. of New York, the intention of this agreement being to protect and preserve unimpaired the lien of the Guaranty Trust Co. of New York, on said property.

....

....

TRUST RECEIPT FOR WITHDRAWAL OF GOODS

next to cash, are the most liquid assets of the firm, and which under the present system of hypothecating can only be turned into money at excessive rates.

The opening of New York and other large cities in this country as free discount markets will open up a new field of banking which is bound to be very profitable to

all banks in city and country which take advantage of it. The purchase and sale of acceptances is quite capable of bringing fair profits.

They form an excellent secondary reserve, being, as they are, convertible immediately, and much easier to handle than stock exchange loans, and usually command a better rate of interest. The discounting and rediscounting of dollar acceptances in New York already run into the millions daily. In one institution in New York the daily transactions frequently run into the millions.

Under the open account system, the merchant is compelled to operate his business with a large line of book accounts, using his own credit for the purpose of borrowing on his single-name paper in the open market. Because of the fact that the character of his book accounts cannot be known without an expensive audit, he is required to show a margin of safety in the proportion of quick assets to quick liabilities, as a rule not less than two to one. No matter how sound may be his credits, he must show this ratio in order to float his single-name paper. If, instead of book accounts, the trade acceptance obtained, a form of credit, easily negotiated, would come into being as soon as the debt was created. If the retail merchant were to put his name to an obligation that would have a certain maturity, it would check the tendency to over-buy. The buyer, knowing that the instrument would be discounted, and his credit injured by failing to meet the debt when due, would be careful to buy only salable merchandise and extend credit only on safe lines. Thus the strain on the wholesaler would be reduced and spread over a large number of dealers. Through the medium of the acceptance the correctness of the amount would be immediately established and at the same time many of the troubles growing out of the return of goods, counterclaims and set-offs avoided.

Any practice that makes credit cheap and easy is undesirable, and it is admitted that the book account credit does tend to make credit cheap and easy to secure. Under the open account, differences as to amount, quality, warranties, etc., are easily provoked, and the burden

of proof placed on the seller as to the terms and conditions of the credit.

It is well known that unfair advantages are taken in the matter of discounts, and all sorts of tricks resorted to in order to obtain the concessions which have become void through lapse of time.

Acceptances and Foreign Business

In discussing acceptances and foreign business, Paul M. Warburg, Vice-Governor of the Federal Reserve Board, in the course of an address before the New York State Bankers Association, said:

"It is a strange fact that many of our business men who enjoy the reputation of being keen and progressive are actually wasting their funds by still using foreign acceptance credits instead of American. At Rio de Janeiro I found to my surprise that the majority of American coffee importers were still using letters of credit in sterling for which they were paying a discount rate of about 4¾ per cent., as against the American discount rate of two per cent. Moreover, in doing so, they were often paying two commissions, one to the foreign banker who issues, and one to the American banker who opens, the credit, instead of paying a single commission to the American banker.

"Let me venture to urge most earnestly that our bankers canvass their lists of importing and exporting firms and point out to them the folly of not using American banking facilities. * * *

"Our machinery is now firmly organized. There are now local banks almost everywhere abroad willing to buy American drafts going forward for acceptance, and to deal in dollar exchange on practically the same narrow margin which prevails in dealings in sterling, marks or francs, and the Federal Reserve Banks are willing, whenever desired, to do their share by quoting 'favorable discount rates' to assure the rate of discount pending the time of transit. This new feature of American banking, which is to be one of the roots of our strength and, at the same time, a new source of profitable and sound banking, ought to be developed energetically by both our bankers and our business men."

Possibilities of the Acceptance

The advent of the domestic acceptance will bring into the financial and business world a new type of instrument that has untold possibilities for good. Under such a system our main commodities such as cotton, grain,

etc., could be held in storage and marketed at favorable times, such acceptances carrying the two-fold security of the goods and the credit of acceptor, supplemented by insurance and ample margins for shrinkage. By the bank acceptance, a bank may, without tying up any of its funds, give validity to a self-liquidating security by

BAILEE RECEIPT.

Received *from the* Guaranty Trust Company of New York,

solely for the purpose of selling same for account of said Company:

____

____

*marked and numbered*_______________

*and*__________*hereby undertake to sell the property herein specified, for account of the said Company, and collect the proceeds of the sale or sales thereof, and deliver the same immediately on receipt thereof to the said Company, to be applied to the credit of*_______________

*hereby acknowledging*__________*to be Bailee of the said property for the said Company, and*__________*do hereby assign and transfer to the said Company the accounts of the purchaser or purchasers of said property to the extent of the purchase price thereof, of which fact notice shall be given at the time of delivery of the said property by*______*to such purchaser or purchasers and all invoices therefor shall have imprinted, written or stamped thereon by*______*the following:*

"Transferred and payable to GUARANTY TRUST COMPANY OF NEW YORK, 140 Broadway, New York."

*If the said property is not sold and the proceeds so deposited within ten days from this date,*______*undertake to return all documents at once on demand, or to pay the value of the goods, at the Company's option.*

The said goods while in {*my* / *our*} *hands shall be fully insured against loss by fire.*

The terms of this receipt and agreement shall continue and apply to the merchandise above referred to whether or not control of the same, or any part thereof, be at any time restored to the Guaranty Trust Company of New York, and subsequently delivered to us.

*Dated at New York,*_______________*191*

____

BAILEE RECEIPT, GOODS RELEASED FOR SALE

accepting drafts for its customers' account and charging a small fee for the loan of credit.

Even though the drawer of the instrument has no credit outside local circles, the addition of the bank's name, even though a small institution, would make the paper salable in the open market at a better rate than the paper would carry at home. The maker of the

paper, with a bank acceptance thereon, could in turn pass the paper on to the wholesaler or manufacturer, who in turn would be able to discount it with his banker and the latter with the Federal Reserve Bank of the district. The commercial credit would by this process be turned into a bank credit and the bank credit be liquidated through the sale of the merchandise.

The holder of a bank's acceptance has the same legal rights against the bank as the holder of a bank's promissory note or bill payable, but banks are not authorized to use their acceptance power for the purpose of borrowing money for their own use. They are specifically limited by the terms of the Act to the acceptance of drafts or bills of exchange—

> (a) Which grow out of transactions involving the importation or exportation of goods;
>
> (b) Which grow out of transactions involving the domestic shipment of goods;
>
> (c) Which are secured at the time of acceptance by a warehouse receipt or other document conveying or securing title covering readily marketable staples;
>
> (d) Which are drawn upon it * * * by banks or bankers in foreign countries * * * for the purpose of furnishing dollar exchange, as required by the usages of trade in the respective countries.

The Federal Reserve Act is the strongest and most constructive plan yet devised to provide business men with real financial assistance, by virtue of the fact that trade paper may be discounted with the Federal Reserve Bank at all times, which is equivalent to saying that an instrument arising out of a business transaction may be quickly turned into money at minimum rates of discount. The Federal Reserve Act utilizes the goods of the nation as a basis of credit, supplies credit and money when, where and as needed for seasonal credit.

Beneficial Effects of the Acceptance

The benefits to be derived by the buyer in the trade acceptance are:

(a) A stronger sense of obligation, in that he has a definite debt, represented by an instrument which can be sued upon, and is self-proving in a court of law.

(b) Safeguards against over-buying, due to the fact that the buyer will not over-stock if he has to meet the obligation at a prescribed time, under more stringent procedure than the book account affords.

(c) Lower costs.

(d) A better system of financial operation.

The trade acceptance converts the sale and delivery of merchandise into a liquid credit promptly and cheaply available for the financial needs of the seller, which are:

(a) Better financing facilities by possession of an available liquid credit.

(b) Smaller operating costs and consequently lower prices.

(c) Reduction of bad debts and losses.

(d) Relief from unfair discounts.

(e) The bank and not the seller carries the credit.

(f) Cheaper money rates, acceptances being given preferential rates in the discount market.

The advantages of the trade acceptance as a substitute for the present method of financing in this country are so admirably and simply set forth in a brochure issued by the Federal Reserve Bank of Atlanta that I herewith quote it in full:

Q.—*What is meant by the Trade Acceptance System?*

A.—The substitution of time drafts, drawn by the seller on the buyer of merchandise at the time of sale, for the present system of "open book accounts."

Q.—*What is a Trade Acceptance?*

A.—A draft with a certain maturity, drawn by a seller on a buyer, for a fixed or determinable sum of money representing the purchase price of goods; pay-

able to order and bearing across its face the unqualified and unconditional acceptance of the buyer.

Q.—What is objectionable in the "open book account" system?

A.—"Open book accounts" are not payable on any definite date; they are subject to unknown offsets and may be disputed; the buyer who is able to pay cash gets a disproportionate earning out of cash discounts; the buyer who must take time is placed at a tremendous disadvantage therefore, and whenever possible borrows at his bank on his own direct obligation to discount his bills. The banker studying the statement of the borrower for the purpose of extending credit regards the item of "accounts receivable" as subject to considerable depreciation, and largely for that reason demands a substantial excess of quick assets over current liabilities. All of these circumstances work to the disadvantage of the buyer of merchandise.

Q.—What are the disadvantages of the "single name" note in the hands of the banker?

A.—First, all national banks and many State banks are strictly limited by law as to the amount of *loans* they may make to any one borrower—a limitation which does not apply to the *discount* of "two-name" paper representing a current business transaction, such as trade acceptances. The limitation in the case of single-name paper is required by prudent banking, but where there are obligations of many different buyers with the endorsement of the seller, such limitation is not essential or desirable.

Second, "single-name" paper has been regarded heretofore as undesirable for rediscount, and lending banks have usually required the direct obligations of borrowing banks, which the latter were averse to give, since "bills payable" by banks have been for a long time looked upon by the public as elements of weakness; and so the lending powers of banks were necessarily limited by reason of the necessity of holding the notes of their borrowers until paid.

Q.—What are the advantages of the Trade Acceptance in the hands of the banker?

A.—The legitimate acceptance of the successful dealer, discounted by the seller at his bank, is the most "liquid" kind of paper obtainable, and in the event of any sudden withdrawal of deposits or any unforeseen stringency, such paper in the hands of the banker is immediately available to meet such withdrawals or for additional loans.

Q.—Why should a seller prefer a Trade Acceptance, instead of a note from the buyer? Why should a buyer who can purchase on "open-book account" on liberal terms, give an acceptance?

A.—(1) The trade acceptance is, on its face, an instrument representing a particular sale of goods, and an absolute acknowledgment of the correctness of the seller's claim, as well as a definite promise to pay on a day certain. If the acceptance bears the clause prescribed by the Federal Reserve Board, "The obligation of the acceptor hereof arises out of the purchase of goods from the drawer," it is prime commercial paper *rediscountable at Federal Reserve banks at a lower rate than other paper.*

Therefore, every seller who has trade acceptances in his hands instead of open accounts on his books puts himself in position to be treated more liberally by his bank, and consequently is enabled to handle additional business, or, if required, to "carry" a customer who is temporarily embarrassed, or to tide over a seasonal period of reduced volume of business. As Mr. Warburg of the Federal Reserve Board well says, such a man can "sell an asset instead of incurring a debt" for funds from his bank.

These advantages will inevitably be passed on to the buyer in the form of more satisfactory terms, lower prices, or better credit.

(2) The buyer who is not in a position to take cash discounts will be better able to compete with the cash buyer.

(3) The trade acceptance showing on its face that the

obligation is made for a purchase of goods, the transaction *establishes,* rather than *reflects on,* the acceptor's credit.

(4) By giving a negotiable evidence of indebtedness to the seller, the buyer shows his good faith; and by meeting his obligation, improves his credit.

(5) The fact that with every purchase he makes a definite promise to pay on a certain day, will train him to be a more careful and more intelligent buyer—which means better profits.

Q.—What are the advantages of the Trade Acceptance system to business in general?

A.—The general adoption of the system will inevitably mean less capital tied up for indeterminate periods, both on the books of the manufacturer and wholesaler and on the books of the bank. A large volume of working capital will thus be released for additional business requirements.

In short, the acceptance system is a plain and easy way to more business and better business for every business man, and a safeguard against those panics and times of stress which have been produced in the past so frequently because of lack of self-liquidating credits, thereby crippling and curtailing legitimate business.

Q.—Why is the Trade Acceptance system not already generally adopted?

A. The "open book account" system has grown up in America largely through the forces of competition, each manufacturer or wholesaler vying with his competitors in extending easy terms to his customers. No other commercially important country conducts its business by any such unsound method; but the fact that the open book account is so thoroughly established in the United States presents the greatest obstacle, *reluctance to change,* which always works against any betterment of existing methods.

Q.—Is the Trade Acceptance system growing in favor?

A.—Yes; leaders in the financial and business world are voicing their approval of the system, and interest in

it; many have begun to use it, and its general adoption is only a matter of education and time. Business men who apply the system in their dealings now, will not only greatly improve their own business, but will perform a useful service for the benefit of credit and banking conditions of the nation.

Beginnings of the Market in New York*

The acceptance business in the United States had its actual beginning shortly after the outbreak of the European War. At that time, under the old state banking law, the Guaranty Trust Company of New York was the only institution in New York City accepting sterling drafts payable at a future date. When the London market had to restrict its acceptances, owing to the new conditions arising from the war, this Company immediately began using dollar letters of credit.

The difficulty at that time was the absence of a market for acceptances. At first, when bills were offered from abroad, drawn under the Guaranty Trust Company's letters of credit, that Company itself bid for them. Gradually other banks began bidding and this action resulted in lowered discount rates. Later, rates dropped still further until, at the beginning of 1915, the ruling rate was from 3 per cent. to 3½ per cent. About the same time the situation began to clear in the American money market. Bankers and brokers were freely bidding for acceptances, thus showing that a discount market was near at hand and that the only thing lacking was the acceptances. The Guaranty Trust Company supplied this deficiency with its own acceptances. The market soon indicated that it could absorb more, and the result was that the discount rate fell to about 2½ per cent. A number of brokers who saw the possibilities in this new line of business, advertised all over the country, recommending the purchase of acceptances. This was a great help to the development of the discount market.

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* From a pamphlet issued by the Guaranty Trust Company of New York.

Volume of Acceptances of Members of the Federal Reserve System

*Arranged According to Amount of Outstanding Acceptances May 1, 1917.**

Name of Bank.	Acceptances Outstanding.
First National, Boston	$13,917,857
National Bank of Commerce, New York	11,980,146
Old Colony Trust Co., Boston	10,822,952
National City, New York	10,218,738
National Shawmut, Boston	8,629,765
Chase National, New York	7,429,643
American Exchange National, New York	7,267,534
National Park, New York	7,098,056
Mechanics & Metals National, New York	6,474,153
First National, Chicago	5,128,347
Philadelphia National, Philadelphia	4,821,825
Bank of New York	4,695,375
Irving National, New York (in portfolio $2,711,176)	4,672,091
Girard National, Philadelphia	4,230,040
Continental & Commercial National, Chicago	4,063,425
Bank of California, San Francisco	3,134,284
Hanover National, New York	2,650,000
Merchants' National, Boston	2,444,264
Merchants'-Mechanics'-First National, Baltimore	2,427,300
Corn Exchange National, Philadelphia	2,395,938
Crocker National, San Francisco	1,983,787
Second National, Boston	2,231,030
Whitney Central National, New Orleans (in portfolio $1,648,469)	2,251,359
Fourth Street National, Philadelphia	2,199,166
Northwestern National, Minneapolis	1,931,502
Broadway Trust Co., New York (in portfolio $383,494)	1,094,044
Importers' & Traders' National, New York (in portfolio $749,999)	1,049,999
Merchants' National, New York	1,016,477
Citizens' National, New York	998,609
Murchison National, Wilmington, N. C.	744,407
Bank of Charleston	743,000
Corn Exchange, New York (in portfolio $599,999)	612,823
Tradesmen's National, Philadelphia	535,951
Fourth-Atlantic National, Boston	500,000
Corn Exchange National, Chicago	489,809
American National, Richmond	450,007
First National, New York	399,634
Massasoit-Pocasset National, Fall River (in portfolio $359,251)	359,251
First National, Philadelphia (in portfolio $349,763)	349,763
Franklin National, Philadelphia	330,728
National Bank of Commerce, Baltimore	327,605
Coal & Iron National, New York	321,965
Market Street National, Philadelphia	275,492
Blackstone Canal National, Providence	259,999
Battery Park National, New York	256,929
Wells-Fargo Nevada National, San Francisco	239,166
Chemical National, New York	249,366
Atlantic National, Jacksonville	200,000
First National, San Francisco	172,917

* From the *New York Commercial,* June 18, 1917.

Scandinavian American National, Minneapolis................	170,000
National Bank of the Republic, Chicago......................	163,051
Safety Fund National, Fitchburg, Mass......................	136,747
Commercial National, New Orleans...........................	127,339
East River National, New York..............................	92,769
National State Capitol, Concord, N. H......................	65,786
Atlantic National, New York	64,916
Fort Dearborn National, Chicago............................	62,971
First National, Perth Amboy, N. J..........................	50,000
Union Exchange National, New York..........................	48,000
Seaboard National, New York City...........................	43,648
Market & Fulton National, New York.........................	35,122

Use of Bank Acceptances*

Seventy firms located in eighteen states and representing forty lines of business have used the trade acceptance during the past year. The cotton industry ranked first in its use; lumber second, and in all probability oil ranked third. These seventy firms report that the trade acceptance met all requirements in a most satisfactory way. They found that the trade acceptance afforded the following advantages to the seller:

Served as a check on over-buying. Prevented the taking of unwarranted discounts. Simplified their bookkeeping. Reduced the expense of collection. Made prompt payment more certain. Eliminated many disputes. Made their assets liquid and more easily convertible. Made possible the concentration of their lines with their local banks, relieving of the necessity of depending upon note brokers (trade acceptances not being subject to the ten per cent. restriction except as to the paper of any one acceptor).

The banks that had the accounts of these firms benefited because:

They could extend accommodation to worthy customers beyond the ten per cent. limitation. They acquired paper eligible for rediscount at special rates at the Federal reserve bank, which would therefore serve as a good secondary reserve. They were enabled to get a more definite line upon the liquidity of their customers' business.

The buyers were benefited because:

They were given better prices. They gained better credit standing with the sellers and with banks. They were checked from over-buying. They were privileged to pay their bills at their own office or bank. Some were enabled to purchase on the same basis as for cash, and others were allowed special "acceptance discounts."

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* From the *Journal of the American Bankers Association,* April, 1917.

Bank Statements

No. 1461.

REPORT OF THE CONDITION OF

THE NATIONAL CITY BANK OF NEW YORK

at New York, in the State of New York, at the close of business, March 5, 1917.

RESOURCES.

Loans and Discounts		$406,713,107 62
Customers' Liability under Letters of Credit		4,301,200 84
Customers' Liability account of "Acceptances"		8,435,775 38
Liability of Foreign Banks and Bankers account of Acceptances to create Dollar Exchange		7,525 00
Overdrafts, Secured and Unsecured		6,018 59
U. S. Bonds to secure Circulation		1,784,200 00
U. S. Bonds Loaned		2,760,500 00
U. S. Bonds on hand		750,000 00
Premium on U. S. Bonds		6,472 39
Bonds, Securities, etc		49,687,659 30
Securities purchased with agreement to resell		77,792 50
Stocks, other than Federal Reserve Bank Stock		51,701 25
Stock of Federal Reserve Bank		1,500,000 00
Banking House, Furniture and Fixtures		5,000,000 00
Due from Banks and Bankers		18,635,917 15
Due from Foreign Accounts		471,966 47
Due from Branches		22,603,217 84
Exchanges for Clearing House		35,429,227 83
Checks on other banks in this city		1,525,578 33
Country checks, other Cash Items and Fractional Currency		1,228,064 32
Notes of other National Banks		78,300 00
Federal Reserve Notes		1,002,405 00
Lawful Reserve, viz.:		
Specie in vault	$56,263,252 99	
Legal-Tender Notes in vault	3,008,500 00	
Deposit in Federal Reserve Bank	39,915,968 62	
		99,187,721 61
Gold Bullion		1,198,381 56
Redemption Fund and due from U. S. Treasurer		141,210 00
Total		$662,588,942 98

LIABILITIES.

Capital Stock paid in		$25,000,000 00
Set aside as capital for Foreign Branches		6,000,000 00
Surplus Fund		25,000,000 00
Undivided profits, less expenses and taxes paid		15,035,771 32
Amount reserved for taxes accrued		171,353 28
Amount reserved for all interest accrued		131,928 68
National Bank Notes Outstanding		1,782,200 00
Due to Banks and Bankers	$264,684,518 60	
Dividends Unpaid	1,120 00	
Individual deposits subject to check	282,813,020 55	
Demand Certificates of deposit	5,834,636 98	
Certified Checks	6,417,356 75	
Ca shier's Checks Outstanding	5,035,945 63	
Time Certificates of Deposit	4,352,927 47	
Time Deposits	1,333,156 24	
		570,473,582 22
U. S. Bonds Borrowed		4,544,700 00
Bills payable, including obligations representing money borrowed		44,627 54
Letters of Credit and Travelers' Checks		4,518,756 43
Acceptances executed for Customers		8,435,775 38
Acceptances executed to create Dollar Exchange		7,525 00
Other Liabilities		1,447,883 18
Total		$662,588,942 98

REPORT OF THE NATIONAL CITY BANK OF NEW YORK SHOWING HOW ACCEPTANCES ARE ACCOUNTED FOR IN THE STATEMENT

REPORT TO THE COMPTROLLER OF THE CURRENCY

(CONDENSED)

OF THE CONDITION OF

THE CHASE NATIONAL BANK

At close of business November 17th, 1916.

ASSETS.

U. S. Bonds to secure circulation		$450,000.00
U. S. Bonds		100,000.00
Bonds and Stocks		42,327,941.59
Customers Liability account of Acceptances		6,482,165.72
Customers Liability under Letters of Credit		392,560.00
Bills discounted		32,865,816.69
Time loans on collaterals		60,109,196.29
Demand loans on collaterals	$77,829,082.39	
Due from banks	13,018,365.23	
Exchanges for Clearing-House	39,832,151.26	
Five per cent. fund	22,500.00	
Legal tender notes	4,865,888.00	
Treasury silver certificates	2,467,007.00	
Gold	18,144,405.00	
Federal Reserve Bank	16,834,196.95	173,013,595.83
		$315,741,296.12

LIABILITIES.

Capital Stock	$10,000,000.00	
Surplus	10,000,000.00	
Undivided Profits,	1,814,113.05	
		$21,814,113.05
Circulation		450,000.00
Deposits, viz:		
Individuals	157,963,108.87	
Banks	128,453,391.39	
		286,416,500.26
Acceptances based on Imports and Exports		6,482,165.72
Letters of Credit		418,170.00
Reserved for Taxes		160,347.09
		$315,741,296.12

REPORT OF THE CHASE NATIONAL BANK OF NEW YORK, SHOWING HOW ACCEPTANCES ARE CARRIED IN THE STATEMENT

The Bookkeeping of the Acceptance

The introduction of the acceptance has necessitated a new scheme of bookkeeping in order to properly account for the liability incurred thereby. Inasmuch as the equilibrium of the bank must not be disturbed, a debit and credit must be opened in exactly the same amount.

On the asset or debit side we have the liability of the customer *to the bank,* the same as in any other obligation running to it, and an account is set up in whatever term desired, but as a rule designated as "Customers' Liability on Account of Acceptances." This may be represented by promissory notes, trust receipts, or other documents, as the bank may elect. Offsetting this we have the liability of the bank *to the holder of the acceptance,* represented by the acceptance outstanding. This is usually designated "Acceptances outstanding." In the two forms shown this will be clearly seen and no further comment is necessary.

TERMS OF BUSINESS

The terms on which some of the leading lines of business are conducted are herewith given:

Groceries

All our goods are sold on 30-day basis, except in special cases, such as southern hotels or summer hotels, where we sometimes allow 60 and 90 days. Notes are never taken by us, except in those instances where the customer has become slow and it is then more convenient for us to use the note as an acknowledgment of the indebtedness than to prove the claim if the matter should reach litigation.

ACKER, MERRALL & CONDIT CO.
(One of the largest wholesale grocery houses in New York.)

The terms in groceries are 30 and 60 days from date of invoice, according to the classification of goods, with the exception of tea, which in full cases is billed on four months' time. The discounts are 1 per cent. in ten days on 30-day goods, 2 per cent. for 60-day goods and 4 per cent. on the four-months' goods if paid in ten days from date of invoice.

J. H. ALLEN & CO.
(Wholesale Grocers, St. Paul, Minn.)

Iron Pipe, Fittings, Valves, Etc.

In our line of business the terms of sale in general merchandising are 30 to 60 days net, although in a few instances, as is the case in every business, these lines are extended to three and four months, without interest, because the class of people with whom we do business refuse to pay interest.

Business used to be done very largely on paper, that is, notes covering periods of time—three to four months, but this has almost been done away with and we get very little in this line at present.

This is due to the fact that we have cut down our lines of credit to such an extent that we no longer have people on our books who require this help. Then, again, we believe that the weaker members have been eliminated and others educated up to more businesslike methods.

One difficulty still exists in this and the hardware lines, and that is allowance for so-called cash payment. Our terms, as before stated, are 30 to 60 days, and 2 per cent. cash, if paid ten days from date of invoice. Where a customer, however, buys steadily during the month, so that it is difficult for him to pay every bill on the terms above stated, he is permitted to pay the 1st and 15th of the month

following that in which the purchases were made, or pay before the 5th or 10th of the month following that in which the goods were bought, and deduct the cash discount.

We all know that this is practically deducting 2 per cent for 30-day payment, but the custom has obtained and it is one of those difficult things to change, and we doubt if it will be changed as long as the keen competition for business exists as it does to-day.

Notwithstanding the fact that we have to allow this cash discount, which is equivalent to four months' time figured on the basis of legal interest, manufacturers, as a whole, demand and insist on collecting their accounts within sixty days.

JOHN SIMMONS CO.
(One of the largest houses in New York.)

Brass and Iron Valves and Fittings

In our trade the terms of sales are from 30 to 60 days net, unless otherwise agreed and upon special arrangement.

In some cases 2 per cent. for cash is allowed if the statement rendered for the purchases of the preceding month is paid on the 10th of the following month. To be more exact, purchases made by a customer during the month of May and paid for on the 10th of June, a discount of 2 per cent. would be allowed, but only on a mutual understanding.

In writing the terms as above to the writer it would read as follows: "2% 10th mo. fol."

Interest is charged by many houses after sixty days. We are not always successful in collecting it, and in order to avoid a dispute or lose a customer, it is in many cases cancelled.

Under no circumstances will the trade allow the post-dating of invoices. It will not be tolerated for one moment.

WALWORTH MANUFACTURING CO.
(Boston, Mass.)

Shoes

Made to order shoes, 4 per cent 30 days, net 60 days.

On merchandise shipped from manufactured stock—styles carried ready for shipment, 1 per cent. 30 days, net 60 days.

The firm states in explanation of this difference that they carry an investment in stock shoes averaging $200,000 at all times, and the working interest on this amount of money, together with the great convenience and accommodation their customers receive through their ability to secure immediate shipment of fiftv to sixty styles from stock, more than offsets the difference in the discount.

UTZ & DUNN CO.
(Large shoe manufacturers, Rochester, N. Y.)

Wholesale Millinery

Millinery jobbing houses in the middle west, that is from and including Louisville, Cincinnati and Chicago on the east to Denver on the west, Dallas on the south and this market on the north, are very well organized and sell goods on the following terms, which are strictly adhered to:

"On goods shipped prior to February 15 and prior to August 15, the maximum dating shall be April 15 in the spring and October 15 in the fall, 6 per cent. discount 10 days after those dates. On goods shipped after February 15 and August 15, 6 per cent. 10 days."

This is a two-season business, and we ship the millinery trade staple goods early in January and early in July for their respective seasons.

Millinery jobbing and manufacturing business in the east has been struggling for years to organize as the houses in the west have done, and are making some headway in that direction. The business in the east, among the small manufacturers especially, is in a much weaker condition as far as the terms on which they sell their goods depend.

STRONGE & WARNER CO.
(Wholesale Millinery, St. Paul, Minn.)

Wholesale Dry Goods

Two per cent. 10 days, 1 per cent. 30 days, net 60 days.

Above are the terms on which all merchandise is sold, in addition to which we allow 60 days extra dating to customers who are in good financial standing. To persons who are not entitled to credit we allow an extra 1 per cent. for cash in 10 days in lieu of the dating privilege, making the shortest terms 3 per cent. 10 days.

BYRNE & HAMMER DRY GOODS CO.
(Omaha, Neb.)

Our general terms are 60 days. We give a dating of April 1 in spring and October 1 in fall.

MARSHALL FIELD & CO.
(Chicago.)

Wholesale Lumber

The terms on lumber shipments, as a general proposition, are as follows:

> "Freight net cash. Balance 2 per cent. for cash 10 days after arrival and unloading of car. Sixty days acceptance from date of invoice."

In a great many cases we sell lumber and accept a 90-day note from date of invoice. The terms of deducting 2 per cent. for cash within 10 days after the arrival and unloading of car are practically accepted by the lumber people all over the country. We, like everyone else in the lumber business, make special terms

from time to time, but as a general proposition most of the commercial paper in this business is handled on a basis of 60 and 90 days.

Yours truly,

THE MOWBRAY & ROBINSON CO.

(Cincinnati, Ohio.)

Wholesale Hardware

Our sale terms are 60 days net, or 2 per cent. for cash in 10 days. This custom is pretty well established here.

We also grant the privilege to customers who buy continuously through the month of assembling the bills of one month for settlement by the 10th of the month following, less 2 per cent. This is the custom that has grown up in large centers, and the 10th of the month is known as settlement day. Our regular terms, however, are as stated above.

SEATTLE HARDWARE CO.

(Seattle, Wash.)

TABLE SHOWING PERCENTAGE OF CASH IN VARIOUS CREDIT STATEMENTS

Business	Location	Quick Liabilities	Cash in Banks	Percentage to Liabilities
WHOLESALE	Nebraska	$724,000	$40,000	5.6
DRY GOODS	California	740,500	157,300	21.3
	California	423,600	43,200	10.2
	Arkansas	476.000	43,000	9.1
	Maryland	1,391,900	171,500	12.3
	Kentucky	879,700	74,400	8.5
	Missouri	179,800	32,200	17.9
	Indiana	276,500	144,200	52.1
	Missouri	1,068,900	249,900	23.4
	Nebraska	1,330,700	170,000	12.8
	Texas	804,200	86,700	10.8
	Maryland	920,600	171,400	18.6
	Missouri	191,000	32,200	16.9
	Utah	434,500	21,500	4.9
WHOLESALE	Connecticut	357,100	66,900	18.9
GROCERS	Iowa	320,900	7,100	2.2
	Iowa	192,400	9,500	4.9
	Arkansas	190,500	29,000	15.2
	Georgia	141,000	20,900	14.8
	Minnesota	562,500	38,400	6.8
	Minnesota	913,600	81,400	8.9
	Nebraska	672,500	106,500	15.9
	Nebraska	64,400	22,000	34.1
	Indiana	38,000	960	2.5

Business	Location	Quick Liabilities	Cash in Banks	Percentage to Liabilities
DEPARTMENT STORE	Georgia	326,300	75.000	23.
	New York	458,500	38,300	8.3
	Nebraska	544,000	57,600	10.6
	Ohio	224,000	25,000	11.1
	Michigan	213,700	147,300	69.4
	Texas	7,500	290,900	38.7*
	Texas	268,000	40,800	15.2
	Pennsylvania	73,200	3,800	5.1
	New York	29,200	3,200	10.9
BOOTS AND SHOES	Nebraska	206,100	31,100	15.
	New York	901,800	679,200	75.3
	Missouri	343,800	36,700	10.6
	Missouri	3,587,600	432,400	12.05
	Missouri	212,500	79,400	37.3
	Pennsylvania	347,000	52,200	15.
MILLINERY	New York	354,400	160,500	45.3
	Minnesota	251,900	54,500	21.6
	New York	184,500	98,000	53.1
HARDWARE	Washington	325,000	33,300	10.3
	Washington	88,100	15,700	17.9
	Iowa	155,900	5,600	3.6
	Missouri	252,400	6,900	2.7
	Utah	368,200	4,000	1.08
	Texas	51,000	529,000	10.4
	Kentucky	677,000	136,000	20.
	Utah	262,600	4,100	1.5
	Washington	88,100	15,700	17.8
CLOTHING	New York	384,700	127,400	33.1
	Texas	30,700	6,500	2.1
PLUMBERS' SUPPLIES	Chicago	834,100	49,700	5.9
	Missouri	242,700	16,700	6.9
	Massachusetts	684,000	57,900	8.4
	New York	368,000	48,300	13.2
	Ohio	139,200	5,200	3.7
AUTOMOBILE TIRES	Ohio	1,944,600	1,766,300	90.8
PIANOS	New York	1,664,300	293,300	17.7
SILVERWARE	Canada	842,600	181,200	21.5
BRICK CO.	Missouri	316,800	73,400	23.2
CHAIR MFG.	Massachusetts	44,100	13,100	29.7
LUMBER	Tennessee	660,000	28,676	4.3
	Ohio	542,100	17,000	3.1
	Texas	293,300	76,600	26.1
STOVES ROOFING	Missouri	369,600	337,000	91.2

Business	Location	Quick Liabilities	Cash in Banks	Percentage to Liabilities
Men's	California	367,900	20,300	5.6
Furnishings	Missouri	229,400	63,100	27.4
Straw Hats	New York.......	18,500	117,000	6.3*
Notions	New York.......	77,800	6,200	7.9
Cotton Oil	Texas	13,500	97,400	7.2*
	Texas	20,000	283	1.4
	Tennessee	32,800	303,500	9.3
Cigars	Pennsylvania	221,000	43,300	19.6
Furniture	Texas	95,000	5,300	5.5
	New York City..	159,000	25,300	16.
Oil Cloths, Rugs	Missouri	122,300	81,100	66.3
Musical	Ohio	1,090,600	125,300	11.5
Instruments	Colorado	145,000	5,000	3.4
Drugs	Pennsylvania	115,000	10,400	9.
	California	438,900	8,400	1.9
	Kansas	104,900	4,500	4.3

*Ratio reversed.

ANALYSIS OF CREDIT STATEMENTS

STATEMENT A

THE JOHN DOE SUPPLY CO., CHICAGO

WATER, GAS, STEAM AND PLUMBERS' SUPPLIES

July 1, 1917

ASSETS

Inventory, July 1, 1917	$276,619.16	
Bills Receivable	32,919.47	
Accounts Receivable	196,513.14	
Cash	16,785.33	
		$522,837.10
Furniture and Fixtures		10,622.09
		$533,459.19

LIABILITIES

Bills Payable	$240,000.00	
Accounts Payable	2,714.02	
		$242,714.02
Balance		290,745.17
		$533,459.19

(Signed) JOHN DOE SUPPLY CO.,
By A. B. C., *Manager*

BANK ACCOUNTS { Blank National Bank, New York City
First National Bank, Chicago }

[A CREDIT STATEMENT IN THE SIMPLEST FORM POSSIBLE]

ANALYSIS OF STATEMENT A

The statement of the John Doe Co. is in as simple form as is possible in credit statements and contains no unusual items. In fact, it has only the standard items found in all credit statements.

Our attention is first directed to the fact that the firm is a plumbing supply house in Chicago, and serves the Middle West. It is subject to those influences that affect building operations, but is not dealing in luxuries or articles subject to fads.

The date of the statement and inventory is recent, but no basis is named for the appraisal figures, and such information would assist materially; but inasmuch as all such articles are rising in price at present, we know that the value of the stock is increasing. Most of a plumbing stock is staple and does not deteriorate. It has a value even as junk.

The bills receivable are not large and should not be, for notes are not taken in plumbing supply operations, the standard form of credit being open-book account.

The accounts receivable are the main asset, next to merchandise, and this is as it should be. The cash would seem to be ample. The furniture and fixtures are not a heavy item and are passed without comment. They might well be eliminated from consideration altogether.

The total assets are over half a million and this brings the paper within the favored class of the big houses.

It is not an audited statement, and reliance must be placed entirely on the firm's own integrity.

The ratio is 2.16 to 1, and sufficient for this line.

STATEMENT B

X. X. Y. CO., INDIANA
WHOLESALE DRY GOODS
June 30, 1917

ASSETS

Cash		$144,186.31	
Accounts Receivable	$251,497.99		
Bills Receivable	39,511.32		
		291,009.31	
Merchandise		376,189.68	
			$811,385.30
Buildings and Equipment			94,000.00
			$905,385.30

LIABILITIES

Bills Payable	$200,000.00	
Accounts Payable	76,570.84	
		$276,570.84
Capital	$500,000.00	
Surplus	128,814.46	
		628,814.46
		$905,385.30

(Signed) X. X. Y. CO.,
H. A. B., *Treasurer*

BANK ACCOUNTS
- Hanover National Bank, New York City
- National Park Bank, New York City
- First National Bank, Indiana
- Citizens National Bank, Indiana

[DRY GOODS STATEMENT WITH REAL ESTATE AND CAPITAL]

ANALYSIS OF STATEMENT B

An analysis of this statement shows the following facts:

The date, recent.

The line, dry goods, a staple commodity and in constant demand.

The place, Indiana, and, therefore, subject to the crop conditions of the Middle West.

It is an unaudited statement, and reliance must, therefore, be placed entirely upon the firm's own figures.

It has bank references, as all statements should.

The ratio of quick assets to quick liabilities is 2.9 to 1, and is quite satisfactory.

The bills receivable open the question as to what they represent, and if the margin of safety were closer we might inquire of what they consist. Dry goods are generally sold on book credit, and notes, if taken, are often for slow and doubtful accounts.

The cash on hand is ample, and nearly twice as much as the accounts payable, an indication of strength.

The capital is over half the total assets and ample for a business of this size. The proprietors have contributed twice as much as the creditors to the working funds of the company.

The real estate is not a large item and may be passed without comment and regarded as supplementary to the other assets.

The surplus has probably been earned, and is one-quarter of the capital stock.

The bills payable are in a round sum and we may conclude the firm has issued but one form of paper—the single-name, as it properly should.

It is a healthy statement; but having no sales or yearly profits, we cannot make other deductions than as above.

STATEMENT C

THE JOHN DOE CO., NEW YORK
MANUFACTURERS OF WOOLENS
June 1, 1917

ASSETS

Inventories of Stock		$593,936.47
Cash on Hand and in Banks		44,819.48
Notes Receivable		175.00
Accounts Receivable	$250,745.11	
Less Accrued Discounts	8,051.74	
		242,693.37
Total Quick Assets		$881,624.32
Real Estate, Buildings and Machinery	$559,829.61	
Less Reserve for Depreciation	215,345.97	
		344,483.64
		$1,226,107.96

LIABILITIES

Notes Payable		$395,000.00
Accounts Payable	$38,397.80	
Accrued Pay Roll	4,331.25	
		42,729.05
Floating Debts		$437.729.05
Surplus Account		638,378.91
Capital Stock		150,000.00
		$1,226,107.96

(Signed) THE JOHN DOE CO.,
X. Y. Z., *Treasurer*

BANK ACCOUNTS { Merchants National Bank, New York City
Chemical National Bank, New York City

Above figures prepared by A., B. & C., Certified Public Accountants

[MANUFACTURING COMPANY'S STATEMENT, CERTIFIED]

ANALYSIS OF STATEMENT C

In any factory statement we would expect a considerable investment in buildings and machinery and such proves to be the case in this one.

We find the notes receivable nominal, and properly so, for the firm sells on book credit and should not take notes in payment. It is to be congratulated on the absence of such items in its statement.

The accounts receivable are depreciated by the discounts that will be deducted, thus giving them the net cash value, assuming all are good.

We further notice that it has a large depreciation account, and this is a sign of health and good management, for machinery wears out constantly and real estate depreciates, as a general rule.

The accounts payable are small for a million-dollar concern, and it has treated its payroll as an accrued liability.

The surplus is large and the capital relatively small, indicating that it has built up its surplus from profits, and can pay large dividends to its stockholders, making the stock valuable.

The ratio is a trifle over 2 to 1, the statement signed and audited, and the paper may safely be bought.

STATEMENT D

JONES & CO., NEW YORK

Department Store

August 1, 1917

Assets

Cash on Hand and in Banks	$38,317.63	
Merchandise	473,858.61	
Accounts Receivable	358,925.07	
Bills Receivable	63,922.57	
Equity in Life and Fire Insurance	18,614.22	
		$953,638.10
Equity in Store Property, Fixtures and Equipment	$702,696.63	
Real Estate	14,228.83	
Delivery Equipment	7,912.64	
Treasury Stock	70,000.00	
		794,838.10
		$1,748,476.20

Liabilities

Creditors		$143,730.15	
Bills Payable		314,800.00	
			$458,530.15
Capital Stock:			
Authorized	$1,000,000.00		
Unissued	11,900.00		
Issued		$988,100.00	
Surplus and Undivided Profits		236,122.55	
Reserves for Depreciation on Fixtures, and Possible Loss on Accounts Receivable		51,005.97	
Reserve for Taxes and Interest		14,717.53	
			1,289,946.05
			$1,748,476.20

(Signed) JONES & CO.
V. A. Jones, *President*

Certified: The Chartered Accountants Co.

Bank Accounts: First National Bank, New York; Citizens Trust Co., New York

[simple department store statement]

ANALYSIS OF STATEMENT D

From our knowledge of the department store business we would expect certain features to be in evidence in a good statement of such a concern, namely, a large amount of cash, merchandise predominating, few or no receivables, and real estate and fixtures in considerable amount. We would expect the firm to have a large amount on its books, since it does a charge business, and likewise owe a considerable sum for merchandise. Let us see how these expectations are met.

Not having the volume of sales, we cannot comment upon the amount of cash, the turnover or the business methods.

The merchandise is equal to half the quick assets and one-quarter the total assets. The method of valuation cannot be determined without advice from the accounting firm. In some statements this is voluntarily furnished. (See methods of merchandise valuation, page 26).

The accounts receivable are about one-third the net quick assets, but without the volume of sales we cannot determine as to the collection methods, which would be possible if the volume of sales was known.

Bills receivable should not be in evidence in a department store statement, for it sells for cash only, or on book credit. We would want information as to character of this item.

The equity in life insurance is probably the cash value of a policy running to the firm and issued on the life of one of the members.

The only equity there can be in fire insurance is unearned premiums and should be so stated.

The real estate equities are large, being nearly one-half the total assets. We cannot, without inquiry, determine the conservatism used in this item.

The delivery equipment is not large, but would have been better held at cost, less depreciation, thus showing prima facie that this is the depreciated value.

The firm has listed the entire capital stock as a liability and holds as an asset the unissued remainder, an allowable accounting method.

It owes various creditors $143,700, and on single-name paper (a conclusion due to the even figures) $314,800, a total of $458,500, or less than one-half the net quick assets.

It is capitalized at a million, all but $11,900 issued, has surplus and undivided profits of $236,000, has set up a reserve for depreciation on fixtures and loss on receivables, and holds a reserve for taxes, altogether making a satisfactory showing.

The date is recent. It is certified. The ratio is satisfactory.

STATEMENT E

V., B. & G. CO., MICHIGAN

DEPARTMENT STORE

August 1, 1917

ASSETS

	Aug. 1, 1916	Aug. 1, 1917
Merchandise	$913,534.11	$947,627.80
Outstanding Accounts	329,770.66	314,130.66
Cash and in Banks	78,134.74	108,165.51
Quick Assets	$1,321,439.51	$1,369,923.97
Store Fixtures	224,343.22	206,037.28
Underwriters	6,256.53	6,951.92
Fixed Assets	$230,599.75	$212,989.20
Total	$1,552,039.26	$1,582,913.17

LIABILITIES

Capital Stock paid in	$1,000,000.00	$1,000,000.00
Due Stockholders	181,639.19	233,093.03
Doubtful Account Fund	8,833.81	2,627.44
	$1,190,473.00	$1,235,720.47
Bills Payable	300,000.00	265,000.00
Accounts Payable (not due)	48,102.53	54,434.22
Savings Account	13,463.73	27,758.48
Total Debts	$361,566.26	$347,192.70
Total Liabilities	$1,552,039.26	$1,582,913.17

Sales, 1916	$4,422,004.00
Net Profits, 1916	255,000.00

(Signed) V., B. & G. CO.

REFERENCES { Detroit National Bank, Detroit
A. B. C. National Bank, Detroit

Notes Payable at National Blank Bank, New York

[A COMPARATIVE STATEMENT WITH SALES]

ANALYSIS OF STATEMENT E

Here we have a comparative statement by which we may test the progress of the firm. We note that the ratio of quick assets to quick liabilities is higher in 1917 than in 1916, a good omen. Second, that merchandise has increased $34,000, while outstanding accounts are decreased by $15,000, indicating better collection methods or more sales for cash. The cash on hand is greater by $30,000. Store fixtures are scaled down by about 9 per cent.

On the liability side we note that the bills payable item is $35,000 less, the accounts payable a trifle larger, and an increased liability in savings accounts, representing, doubtless, deposits of the employees. The doubtful account item is diminishing.

The sales are about $370,000 a month, and the outstanding accounts represent, therefore, less than one month's sales, while the merchandise is sufficient for three months' sales, allowing a turnover of four times a year.

The net profits have evidently been withdrawn, as the assets have increased but $30,000, after a year's operations, resulting in a profit of $255,000.

The ratio of quick assets to quick liabilities is 3.9 to 1, a very satisfactory condition.

It is, however, an unaudited statement.

STATEMENT F

THE COMMERCIAL DRY GOODS CO., TEXAS
January 1, 1917

Assets

Inventory of Merchandise and Supplies		$263,444.59
Accounts Receivable—Customers		223,367.17
Accounts Receivable—Miscellaneous		5,802.49
Notes Receivable		11,238.33
Cash on Hand and in Bank		21,864.54
		$525,717.12
Mfg. Equipment, Furniture and Fixtures	$8,321.20	
Outside Real Estate, less Mortgages	6,439.91	
Blank Building Co. Stock	24,000.00	
Surrender Value of Life Ins. Policies*	1,720.80	
Hotel Building Assn. Stock Subscription	400.00	
Prepaid Interest, Insurance, etc	3,850.50	
		44,732.41
Total		$570,449.53

Liabilities

Notes Payable			$175,500.00
Accounts Payable			3,917.02
Dividend on Capital Stock paid January, 1916			6,000.00
Accrued Taxes			626.00
			$186,043.02
Capital Stock		$300,000.00	
Surplus Jan. 1, 1916	$52,303.98		
Net Income for year to Dec 31, 1916	62,102.53		
	$114,406.51		
Less Dividends of 10% declared ($24,000.00 paid)	30,000.00		
		84,406.51	
			384,406.51
Total			$570,449.53
Net Sales, 1916			$1,068,136.00

Above audited and certified correct by Marwick, Mitchell, Peat & Co., Chartered Accountants.

*Note: The life of Mr. John Blank, President, is insured in favor of the Company for $20,000.00.

[WHOLESALE DRY GOODS STATEMENT]

ANALYSIS OF STATEMENT F

Here we have a wholesale dry goods concern in Texas. It has divided its receivables into two groups, "Customers" and "Miscellaneous." If the latter item were larger we might inquire into the distinction. It has but few notes taken in payment, and properly so, for dry goods are not sold on promissory notes, although in some lines old customers prefer to pay in this manner.

The plant, furniture and fixtures is not a large item, for in a wholesale house the fixtures need not be as ornate or as costly as in retailing. It has an outside real estate interest and stock in a building company and we might inquire as to the nature of this alliance. The company has a policy of $20,000 on the life of its president, and holds it at its surrender value—a proper method. It has gone into a hotel association, but not heavily, probably taking stock in payment for furnishings supplied.

The liabilities are chiefly in commercial paper, the accounts payable being small, probably only those in process of audit.

It holds the accruing dividend as a liability and accrued taxes likewise.

The profits for 1916 were over 20 per cent., out of which it paid a dividend of 10 per cent. on the stock.

The ratio in this statement is 2.8 to 1 and satisfactory. The net sales are over $1,000,000, which includes the profit. Assuming the profit at 30 per cent., the cost of the merchandise gone out of stock is $821,000. Dividing this by the inventory we find they have turned over stock about three times during the year.

The monthly sales are about $89,000, and it has on its books less than three months' sales. Forty-five days' sales would be better. It is a satisfactory statement.

STATEMENT G

A., B. & C., CONNECTICUT
WHOLESALE GROCERS
June 30, 1917

ASSETS

	July 1, 1916	July 1, 1917
Merchandise	$361,096.50	$390,728.69
Accounts Receivable	345,035.96	388,718.64
Bills Receivable	11,146.41	13,296.71
Cash	59,964.40	66,977.56
Quick Assets	$777,243.27	$859,721.60
Real Estate	149,000.00	141,550.00
Auto Trucks	9,437.50	4,350.00
Fixed Assets	$158,437.50	$145,900.00
Total Assets	$935,680.77	$1,005,621.60

LIABILITIES

Bills Payable	$302,850.00	$342,850.00
Accounts Payable	26,535.97	14,334.67
Quick Debts	$329,385.97	$357,184.67
Mortgage	76,000.00	76,000.00
Reserve for Taxes	5,388.16	5,729.23
Net Worth	524,906.64	566,707.70
Total Debts	$935,680.77	$1,005,621.60

Sales	1915-16	$3,267,088.53
Net Profits	"	69,025.50
Insurance	"	90%

(Signed) A., B. & C.

REFERENCES:
- Blank National Bank, New Britain, Conn.
- Blank National Bank, New Haven, Conn.
- Blank National Bank, Bridgeport, Conn.
- Blank National Bank, Meriden, Conn.

[WHOLESALE GROCERY STATEMENT, "NINETY PER CENT. INSURANCE"]

ANALYSIS OF STATEMENT G

Here we have a comparative statement showing quick assets of about 2.4 to 1. The merchandise has increased $29,000, the accounts receivable $43,000, bills receivable $2,000, and cash $7,000. Real estate has been scaled $8,000, a proper deduction, and the auto trucks scaled one-half, also proper accounting procedure.

The bills payable show a gain of $40,000, and the accounts payable are $12,000 less, indicating that they have borrowed money on single-name paper to take the cash discounts. The net worth of the firm has increased $42,000 out of net profits of $69,000, showing that the firm has not taken all the profits for the proprietors.

The sales are about $250,000 a month. The accounts receivable (allowing 30 per cent. profit) show about six weeks' sales on the books, while the merchandise is equivalent to about six weeks' sales, showing a quick turnover, which is proper in the grocery line.

We notice the item of insurance, 90 per cent. This brings about an inquiry as to the amount of insurance which is proper to carry.

By the 80 per cent. rule which is widely in force in insurance circles, property must be insured for at least 80 per cent. of its value, or the assured becomes a co-insurer for any deficiency in case of loss. This 80 per cent. rule is not generally understood. Briefly stated, it is as follows: If the insured does not carry insurance to the amount of 80 per cent. of the value of the property, in case of damage he can only claim such proportion as the amount of insurance bears to the amount of the loss. If, for instance, the property is worth $1,000, and $600 insurance is carried, in the event of a loss of $100 the owner could claim only three-fourths of his loss or $75. The reason for this is readily to be seen. If one man pays a premium on $600, has a loss of $100, and is paid in full, and another pays a premium on $800 and has a similar loss, the burden has been unequal, and the former has not borne his proportionate share of the insurance; therefore the rule of the 80 per cent. clause.

STATEMENT H

BLANK HARDWARE CO., MISSOURI

WHOLESALE HARDWARE

May 1, 1917

ASSETS

	May 1, 1916	May 1, 1917
Merchandise	$440,023.12	$509,116.91
Accounts Receivable	225,603.74	258,722.03
Notes Receivable	22,241.68	23,120.06
Cash and in Bank	8,300.60	6,904.98
Quick Assets	$696,169.14	$797,863.98
Real Estate	166,663.26	167,775.87
Furniture and Fixtures	10,099.49	9,000.00
Blank River Navigation Co	4,907.90	......
Machinery and Equipment	6,833.22	6,281.53
Catalogue	30,225.00	19,000.00
Insurance Unearned	265.58	163.70
Redeemed Preferred Stock	......	2,000.00
	$218,994.45	$204,221.10
Total Assets	$915,163.59	$1,002,085.08

LIABILITIES

Capital—Preferred	$200,000.00		
Common	300,000.00	500,000.00	500,000.00
Redemption Fund		87,192.21	88,056.74
Surplus		98,526.37	89,984.57
Undivided Profits		18,322.73	71,600.08
		$704,041.31	$749,641.39
Notes Payable		191,613.00	170,115.00
Accounts Payable		19,509.28	82,328.69
		$211,122.28	$252,443.69
		$915,163.59	$1,002,085.08

	Sales	Net Profits	Dividend Paid
1915	$1,345,888.28	$18,322.73	7% Preferred
1916	1,535,554.69	85,460.08	7% Pref. 8% Com.

(Signed) BLANK HARDWARE CO.,
By JNO. DOE, *President*

[WHOLESALE HARDWARE STATEMENT]

ANALYSIS OF STATEMENT H

This firm shows a more than satisfactory year. The merchandise has increased $69,000, for which it owes (accounts payable are $63,000 more), but notes payable are $21,000 less. The firm has taken no more receivables into its business—a very good omen. Cash would seem to be too little for large operations, but the hardware business seems to be able to operate on a small amount of cash. The real estate, furniture and fixtures are about the same, while the Blank River Navigation Co. securities have been sold or otherwise disposed of. The machinery has been cut down, catalogue account has been reduced, and redeemed preferred stock held at $2,000.

The total assets have increased $87,000, or about the amount of the net profits. There is no material change in the capital or the redemption fund. The surplus has decreased $9,000, while the undivided profits are $53,000 more. The notes payable are less by $21,000, while the accounts payable are greater by $63,000, representing stock purchased.

The odd figures in the notes payable would indicate that the firm had given its promissory notes rather than commercial paper, and should be inquired into.

The company has paid dividends on both preferred and common stock, and had earnings over $67,000 greater than the year before.

The 1916 sales were at the rate of $128,000 a month. The accounts receivable are, therefore, equal to two months' sales, and allowing a gross profit of 40 per cent., the stock is turned about twice a year. (Divide sales by 140 to get cost of merchandise sold, and merchandise into this, and the result is the turnover).

STATEMENT I

B. C. W. HARDWARE CO., WASHINGTON

WHOLESALE HARDWARE

ASSETS

		July 1, 1916	July 1, 1917
East Coast Hardware Co.		$92,500.00	$98,100.00
Real estate and buildings (1915)	$520,000.00		
*Less Mortgage (1915)	150,000.00		
		370,000.00	520,000.00
Printing Plant		5,000.00	5,000.00
Automobile Account		8,800.00	7,600.00
Invested Assets		$476,300.00	$630,700.00
Merchandise		740,958.41	726,905.31
Bills Receivable		112,375.43	129,075.44
Accounts Receivable		472,126.04	458,076.95
Cash		26,170.23	33,352.21
Quick Assets		$1,351,630.11	$1,347,409.91
Total Assets		$1,827,930.11	$1,978,109.91

LIABILITIES

Capital	$1,000,000.00	$1,000,000.00
Surplus	250,000.00	250,000.00
Undivided Profits	270,000.00	370,000.00
Reserve for Taxes, Charity, etc.	20,340.11	33,109.91
	$1,540,340.11	$1,653,109.91
*Bills Payable	287,590.00	325,000.00
	$1,827,930.11	$1,978,109.91

*Paid off during 1916. If mortgage had been renewed our Bills Payable item would be but $175,000.00.

	Sales	Net Profits
1915	$2,167,734.28	$70,000.00
1916	2,182,892.35	200,000.00

(Signed) B. C. W. HARDWARE CO.,
By B. C. W., *Treas.*

[HARDWARE STATEMENT (NOT WELL ARRANGED)]

ANALYSIS OF STATEMENT I

This is a comparative statement. The fixed assets are listed first. We notice first that the mortgage has been reduced by $150,000, and inquire by what means. Following the asterisk, we note that the bills payable would have been, according to their statement, $150,000 less if the mortgage had been renewed; therefore, the firm has issued commercial paper to liquidate its mortgage indebtedness. It is a settled principle that this should not be done, and proper financing would replace this item by fixed liabilities represented by mortgage loans and not by a floating debt as in commercial paper.

The firm evidently could not renew the mortgage or replace it promptly and so sold its paper to meet the obligation; however, the quick assets in 1917 are more than 4 to 1, showing a very healthy condition.

The automobile account has been scaled $1,200, which is proper. Merchandise is $14,000 less, bills receivable $17,000 more, accounts receivable $14,000 less. The firm has evidently had a good season in 1916, adding $100,000 to the undivided profits. The net profits were $70,000 in 1915, in comparison with $200,000 in 1916.

The accounts receivable are about one-fifth of the annual sales, indicating credit terms of about two months, while the merchandise, allowing for the usual profit, is about one-half the sales, indicating a turnover of twice a year. Altogether the statement is more than satisfactory.

STATEMENT J

JOHN DOE PACKING CO., NEBRASKA
June 30, 1917

ASSETS

Capital Assets:		
Plants, Machinery, Cars, etc.	$785,652.84	
Automobiles, Horses, Wagons and other Equipment	75,692.73	
		$861,345.57
Current Assets:		
Cash and Bank Balances	167,262.53	
Merchandise, Supplies, etc.	740,247.52	
Receivables	281,073.92	
		1,188,583.97
		$2,049,929.54

LIABILITIES

Current Liabilities:		
Notes Payable	$411,000.00	
Accounts Payable	113,974.69	
		$524,974.69
Capital Liabilities:		
Capital Stock	803,000.00	
Bonds	250,000.00	
Surplus	471,954.85	
		1,524,954.85
		$2,049,929.54

Insurance in Force	$1,127,125.00
Sales for the Year	8,408,420.92

(Signed) JOHN DOE PACKING CO.,
JOHN DOE, *President*

Certified: NEBRASKA AUDIT CO.

REFERENCES { Blank National Bank, Omaha
First National Bank, Chicago

[WHOLESALE MEAT STATEMENT]

ANALYSIS OF STATEMENT J

Here we have a packing house statement of recent date, properly audited, ratio 1.65 to 1. The sales are about $700,000 monthly, or $23,000 a day. It has stock sufficient for about a month, which is proper in the meat line.

We notice one unusual feature—that the "receivables" might be accounts receivable or notes receivable; undoubtedly the former, for in the meat business notes are not taken, and only short-time credit of a week or ten days is extended. Assuming that the receivables are book accounts, they constitute but 12 days' sales, and proper for this line.

The insurance is sufficient to cover the entire stock, and half the value of plant, cars, etc., the latter being scattered all over the country, and not subject to a single fire risk.

STATEMENT K

DOE CLOTHING CO., MISSOURI
April 1, 1917

ASSETS

Accounts Receivable	$617,898.04	
Bills Receivable	31,916.68	
Cash on Hand and in Banks.......	127,359.81	
Merchandise	397,470.67	
		$1,174,645.20
Real Estate	2,000.00	
Plant (total cost, $96,000.00)......	100.00	
		2,100.00
		$1,176,745.20

LIABILITIES

Capital Stock—Preferred...........	$181,100.00	
Common	498,600.00	
		$679,700.00
Guarantee		35,000.00
Surplus		77,338.56
Accounts Payable	$17,006.64	
Bills Payable	367,700.00	
		384,706.64
		$1,176,745.20

(Signed) DOE CLOTHING CO.,
By JOHN DOE, *President*

BANK ACCOUNTS
- Central National Bank, New York City
- Bank of Commerce, St. Louis, Mo.
- Blank National Bank, St. Louis, Mo.
- Pennsylvania National Bank, Philadelphia

[WHOLESALE CLOTHING STATEMENT]

ANALYSIS OF STATEMENT K

The two features of this statement are the ratio of quick assets, which is 3 to 1, the nominal investment in real estate, and the fact that a plant costing $96,000 is held at $100. This heavy scaling is commendable, for it shows a disposition to regard real estate holdings as nominal assets, which is conservative, to say the least.

STATEMENT L

THE DOE-ROE MUSIC CO., COLORADO
July 1, 1917

ASSETS

Cash on Hand and in Banks........	$5,066.17	
Accounts Receivable	44,229.41	
Bills Receivable	593,050.51	
Merchandise	214,689.96	
		$857,036.05
Accounts Receivable (Short Checks)............		467.78
Accrued Interest Lien Notes....................		32,279.58
Prepaid Fire Insurance		2,825.83
Manufacturers' Accounts		869.33
Machinery and Fixtures........................		17,488.32
Horses and Wagons		4,224.41
Real Estate		565.00
		$915,756.30

LIABILITIES

Bills Payable	$107,306.94	
Accounts Payable	23,590.94	
Deposits and Other Trust Funds....	14,254.34	
		$145,152.22
Deferred Liabilities		83,607.83
Suspense and Conditional		2,048.87
Accounts Owing Directors and Stockholders......		36,940.58
Agents' Accounts		630.59
Capital Stock		250,000.00
Surplus and Undivided Profits		447,376.21
		$915,756.30

(Signed) DOE-ROE MUSIC CO.,
By JOHN DOE, *President*

BANK ACCOUNT { First National Bank, Colorado
Dun Rating: A A1

[WHOLESALE MUSIC STATEMENT]

ANALYSIS OF STATEMENT L

In the text of this work it is said that musical instruments are sold on notes, and in a statement of a music house we would expect to find bills receivable in predominance, which proves to be the case in this instance. Out of total assets of $915,000, promissory notes form two-thirds.

The cash in this statement is low, but a large amount of cash is not needed in selling musical instruments. The bills payable are but $107,306.94, but the presence of odd cents indicates that they are two-name paper, or perhaps a mixture.

The firm has quick assets of about 6 to 1, presuming all the notes are good. The selling of pianos is largely on time, notes being taken in payment, and the experience of firms in this line has been that once an instrument is sold it stays sold, however great the hardship might be to keep up the payments. Few pianos are ever taken back.

"Accrued interest" means interest on the notes that has accrued to the time of the statement, and inasmuch as interest is a "debt due to the lapse of time," this is a proper asset. The firm is so strong in its quick assets that we need not analyze the other features further. The entire indebtedness, aside from capital stock and surplus, is less than 25 per cent. of the quick assets, and the paper would pass as prime.

STATEMENT M

THE X. Y. Z. CO., NEW YORK

Straw and Felt Hats

August 10, 1917

Assets

Cash in Banks and on Hand........	$117,172.21	
Accounts Receivable, less provision for doubtful accounts and discounts	57,649.12	
Bills Receivable, less provision for doubtful items	3,385.84	
Inventories of Raw Materials and Finished Merchandise at or below cost.	22,887.32	
Advances to Factories..............	35,990.93	
Due from Officers and Employees...	3,300.00	
		$240,385.42
Investment in Plant and Equipment............ (Valued in 1912 by Manufacturers Appraisal Co. at $81,929.65)		14,993.50
Deferred Charges:		
Unexpired Insurance.............	$698.82	
Net Expenses applicable to 1918...	6,237.29	
		6,936.11
		$262,315.03

Liabilities

Accounts Payable:		
Factories	$15,667.56	
Miscellaneous	2,816.04	
		$18,483.60
Capital Stock:		
Authorized—2500 $100 shares.....	$250,000.00	
Issued—2400 shares of $100 each............		240,000.00
Surplus		3,831.43
		$262,315.03

We have audited the books and accounts of X. Y. Z. Co. for the period from July 1, 1916, to August 10, 1917, and we certify that, in our opinion, the above balance sheet is properly drawn up so as to show the true financial position of the company on August 10, 1917.

(Signed) PRICE, WATERHOUSE & CO.,
Certified Public Accountants

[HAT MANUFACTURER'S STATEMENT]

ANALYSIS OF STATEMENT M

The feature in this statement that is noticeable is the large cash balance, which amounts to nearly one-half the total assets. But this is a July statement, when the summer collections should be well in hand, and stock low, for the spring sales should now be turning into money. The firm has few bills receivable, and this is proper, for such goods are not sold on notes. The "advances to factories" means that the firm sells for factories, and as goods are made up for the coming season, or in process of making, advances are made to the manufacturing firm and charged up as an asset here shown.

The item "due from officers and employees" no doubt represents money advances against salaries and commissions and is not a good practice, but obtains in many instances.

The investment in plant and equipment will be seen to be greatly below the appraisal made by the Manufacturers' Appraisal Co., presumably an independent authority.

The company has incurred and paid expenses of $6,237.29 in advance of the season and which is a charge against next year's profits.

The company's debts are light, it has no paper outstanding at the time this statement is made, but will have as soon as the buying season begins for the coming season's operations.

STATEMENT N

THE D. K. DRY GOODS CO., OMAHA, NEB.
June 30, 1917

ASSETS

	June 30, 1916	June 30, 1917
Merchandise, as per Inventory......	$530,899.44	$391,655.39
Accounts and Bills Receivable......	571,962.45	571,728.84
Cash	156,196.73	43,047.91
Quick Assets	$1,259,058.62	$1,006,432.14
Furniture and Fixtures............	20,490.18	17,093.83
Real Estate and Personal Property..	9,996.49	16,387.76
Interest on Unexpired Bills Payable.	4,736.10	2,716.65
Premiums on Unexpired Insurance..	2,347.67	1,800.00
Stationery on Hand...............	1,500.00	750.00
Live Stock	1,399.50	1,000.00
Stock in Other Corporations........	......	250.00
Fixed Assets	$40,469.94	$39,998.24
Total Assets	$1,299,528.56	$1,046,430.38

LIABILITIES

Capital	$500,000.00	$500,000.00
Surplus	71,282.66	70,260.25
	$571,282.66	$570,260.25
Bills and Accounts Payable	728,245.90	476,170.13
	$1,299,528.56	$1,046,430.38

Endorsers' outside worth............$300,000.00

[WHOLESALE DRY GOODS STATEMENT]

ANALYSIS OF STATEMENT N

Our attention is first called to the merchandise item, which has decreased $139,000. The stock has either been marked down or reduced by sales. From the accounts receivable we conclude that it has not been sold on credit, for the receivables are practically the same as a year ago, and the cash reduction of $112,000 is evidence that it has not been turned into money; therefore, we look further for the cause.

Furniture and fixtures has been depreciated, property, real estate, increased $7,000, stationery has been reduced and live stock likewise depreciated.

There is practically no change in the total of fixed liabilities; but we find a reduction of $252,000 in bills and accounts payable, and we conclude, quite properly, that the company has turned merchandise into money and liquidated its debts. There is a shrinkage of $253,000 in the total worth of the concern, due to shrinkage in merchandise and cash, but the statement shows over 2 to 1 in quick assets.

It would be well, therefore, to obtain more information before extending a heavy line of credit, and an inquiry would, no doubt, prove satisfactory.

STATEMENT O

BLANK STOVE MANUFACTURING CO., MISSOURI
August 1, 1917

ASSETS

Merchandise—Made	$527,890.55	
Merchandise—Raw	200,911.03	
	$728,801.58	
Accounts Receivable	750,065.01	
Cash and in Bank	2,688.77	
		$1,481,555.36
Real Estate (See Note No. 1)	$306,626.24	
Buildings (See Note No. 2)	470,729.58	
Machinery, Patterns and Fixtures (See Note No. 3)	218,828.32	
		996,184.14
Good Will		1,888,963.63
		$4,366,703.13

LIABILITIES

Capital—Preferred	$1,500,000.00		
Common	1,500,000.00		
		$3,000,000.00	
Surplus		414,151.65	
Profit and Loss, 1916		191,604.57	
			$3,605,756.22
Bills Payable		435,000.00	
Owed Stockholders		163,500.00	
Owed Blank Match Co.		110,000.00	
Accounts Payable		52,446.91	
			760,946.91
			$4,366,703.13

Note No. 1—Appraised by John Doe for $622,600.00
Note No. 2—Appraised by John Doe for 575,159.14
Note No. 3—Appraised by John Doe for 508,770.11

	Sales.	Net Profits	Dividends Paid
1915	$1,506,440.67	$181,137.84	6% Pref. 5% Com.
1916	1,713,715.29	191,604.67	6% Pref. 5% Com.

(Signed) THE BLANK STOVE CO.,
By JOHN BLANK, *Treasurer*

[STOVE MANUFACTURER'S STATEMENT (WITH REAL ESTATE APPRAISAL)]

ANALYSIS OF STATEMENT O

The first noticeable feature about this statement is the low cash balance, which for a four-million-dollar concern would seem insufficient. It is not enough for one payroll, and any occurrence that would shut off the ready supply of money would embarrass the firm.

Attention is called to the real estate valuations, which are far below the independent appraisals as shown at the bottom of the statement.

The good will is nearly one-half the total worth, and is so large a proportion of the gross assets that we inquire as to the reasonableness of this valuation. But this high valuation is overbalanced by the low valuation of the real estate.

The company owes its own stockholders $163,000 and the Blank Match Co. $110,000. We should be justified in asking for a commercial report in order that we may get further information as to the company's affiliations and its history.

The sales increased $200,000 and the net profits $10,000, or about 5 per cent. It pays dividends on both classes of stock, has a comfortable surplus, and showing up well under more minute inquiry, would pass as a safe credit risk.

STATEMENT P

J. J. H. & CO., MINNESOTA

Wholesale Grocers

At the close of business December 31, 1916, after payment of Cash Dividend amounting to $57,000, representing 6% on the Preferred and 10% on the Common Stock of the Company.

Assets		
Cash:		
Blank National Bank, Minnesota	$17,345.43	
Blank National Bank, St. Paul	9,591.90	
Blank Bank of New York	10,950.47	
Cashier's Fund	600.00	
		$38,487.80
Merchandise:		
Inventories		375,335.81
Notes and Accounts Receivable:		
Notes Receivable		43,923.01
Accounts Receivable	$594,830.51	
Personal Accounts	2,578.56	597,409.07
Total Current Assets		$1,055,155.69
Investments:		
Blank Realty Co.	$174,477.94	
Blank Realty Co., New Building	17,176.97	
Other Real Estate	26,775.98	
Stock in Blank Candy Co.	23,700.00	
City Electric Ry. Bonds	1,000.00	
		$243,130.89
Plant Assets:		
Machinery and Fixtures	$10,567.08	
Barn, Horses and Vehicle Equipment	3,046.04	
Auto Trucks and Automobiles	8,035.00	
	$21,648.12	
Less Depreciation	2,165.65	
		19,482.47
Deferred Assets:		
Interest Paid in Advance	$2,271.43	
Unused Mileage and Expenses and Stationery, Inventories	1,668.63	
Unexpired Insurance	1,511.00	
		5,451.06
Franchise		50,000.00
		$1,373,220.11

LIABILITIES

Notes Payable:		
In favor of Banks	$407,500.00	
In favor of Stockholders and Private Individuals	155,075.00	
		$562,575.00
Accounts Payable:		
Merchandise Purchases, not due	$35,189.08	
Personal Accounts	2,810.24	
		37,999.32
Total Current Liabilities		$600,574.32
Capital Stock:		
Preferred	$200,000.00	
Common	450,000.00	
		650,000.00
Undivided Profits		122,645.79
		$1,373,220.11

I have examined the books and records of J. J. H. Co. of Minnesota for twelve months ending December 31, 1916, and:

I hereby certify that the balance sheet is drawn up so as to show the true financial condition of the corporation as at December 31, 1916.

The merchandise inventories have been certified by the company's officials as to quantities, marketable condition and correct valuations, and in my opinion are absolutely reliable and accurate in obtaining the figures given.

(Signed) RICHARD ROE, *Public Accountant.*

Minnesota, January 13, 1917.

[WHOLESALE GROCERY STATEMENT]

ANALYSIS OF STATEMENT P

We notice that this is a statement made up after payment of a $57,000 dividend.

The company goes into great detail in giving information, and the cash balances in the various banks are stated. The notes and accounts receivables are also segregated.

The investments in the realty concern and candy company constitute about 25 per cent. of the total worth, and would bear investigation if the company did not show up well in the ratio of 1.7 to one, which ordinarily is enough for the grocery line. The company also states its equipment in detail, and holds it at cost less depreciation, quite proper.

It has various incidental assets, such as prepaid interest, unused mileage, unused stationery, etc., and a franchise valued at $50,000.

The company owes on commercial paper $407,500 and to stockholders and private parties $155,000. The latter is not a safe method of borrowing and should not be resorted to.

It has few unpaid bills, if the "merchandise purchases" are not due, and has a few unpaid personal accounts.

My judgment is that the doubtful points should be cleared up before making a purchase of this paper, which at first sight would seem to be good.

STATEMENT Q

AUTOMOBILE ACCESSORY CO., MASSACHUSETTS

MANUFACTURERS' AGENTS AND WHOLESALE AUTOMOBILE ACCESSORIES

January 31, 1917

ASSETS

Cash		$34,142.74	
Accounts Receivable	$294,233.67		
Notes Receivable	1,762.32		
	$295,995.99		
Less Reserve for Doubtful Accounts	13,086.39		
		282,909.60	
Merchandise Inventory		576,049.65	
			$893,101.99
Machinery, Tools, Dies, Equipment, Automobiles, Furniture and Fixtures, etc.			79,643.64
Prepaid Insurance Premiums, Interest, etc.			8,489.93
			$981,235.56

LIABILITIES

Notes Payable		$147,000.00	
Accounts Payable (not due for discount)		231,625.94	
Dividends Payable on Common Stock		10,000.00	
			$388,625.94
Notes Payable due in 1918-1919			21,000.00
Capital Stock:			
Preferred	(authorized $300,000)	$286,500.00	
Common	(authorized 250,000)	100,000.00	
			386,500.00
Surplus Account			185,109.62
			$981,235.56

AUTOMOBILE ACCESSORY CO.,
By B. A. GASMAN, *President.*

ANALYSIS OF STATEMENT Q

Here is a statement with an unusual amount of comment by the brokers, which is essentially an analysis of the company's affairs. The examining accountant says:

"The above balance sheet of the Automobile Accessory Co. at January 31, 1917, has been prepared by us from the books and records of the Company. A physical inventory was taken at the close of the fiscal period on October 31st last, and to determine the value thereof at January 31, 1917, we have used as a basis the merchandising profit of 24 per cent.—representing the actual operating experience for the fiscal year ending October 31, 1916—on the amount of gross sales between October 31, 1916, and January 31, 1917. This method has previously been used between fiscal periods, and its correctness having been verified when the physical inventory was subsequently taken, we are of opinion that the aggregate value of the inventory at January 31, 1917, thus determined, is conservatively stated. Ample provision has been made for doubtful accounts and

for all ascertainable liabilities, and in our opinion the above balance sheet represents a true and correct statement of the financial position of the Company at January 31, 1917."

(Signed) F. W. W., *C. P. A.*

The broker says:

"The Automobile Accessory Co. are manufacturers' agents and wholesalers of automobile accessories. They have the exclusive sale for certain territories of well-konwn automobile accessories, such as chains, lamps, spark plugs, tires, etc.

"Controlling interest in this busines was acquired in 1910 by Mr. B. of the old established house of B. & C., Hardware Manufacturers' Agents. He not only saw its possibilities, but has established its trade from the start on a basis of doing a strictly wholesale business and selling only the best-rated dealers in the trade. The restrictions which he has placed upon his salesmen and credit department have amply proved the wisdom of his policy and also the fact that a conservative as well as profitable business could be done in this line of trade. The methods of merchandising entail no contracts which would guarantee to the manufacturer, whose goods they sell, that the company would take a certain quantity of his product whether or not there was demand for it.

"The company's sales record indicates the growth of the business:

For the year ending October 31, 1911	$389,908.00
For the year ending October 31, 1912	403,968.80
For the year ending October 31, 1913	470,429.29
For the year ending October 31, 1914	620,103.27
For the year ending October 31, 1915	1,246,729.84
For 15 months ending January 31, 1917	2,158,766.39

"The following comparative analysis of essential credit data for the past two fiscal years demonstrates conclusively, first, the large earning power of the company, and second, its strong financial position. Attention should be called particularly to the increase of over $247,000 in excess quick assets over debt.

	Oct. 31, '15	Jan. 31, '17	Increase
Quick Assets	$488,720.53	$893,101.99	$404,381.46
Quick Debt	231,565.36	388,625.94	157,060.58
Net Quick Assets (excess over debt)	$257,155.17	$504,476.05	$247,320.88
Ratio	2.11	2.29	.18
Sales	$1,246,729.84	$2,158,766.39	$912,036.55
Profits	88,747.12	122,388.44	33,641.32
Capital Stock (Pfd.)	50,000.00	286,500.00	236,500.00
Capital Stock (Com.)	100,000.00	100,000.00	....
Surplus	92,949.01	185,109.62	92,160.61

"The merchandise item in the attached statement is unusually large because of the necessity of preparing for the active demand which arises in the Spring (their busiest season). The item of accounts payable, which represents merchandise purchased, is likewise large. Furthermore, in explanation of the seemingly disproportionate amount of accounts payable, it may be stated that some $65,000 represents accounts not due for discount till May 1, and about $100,000 represents the previous month's purchases of "Weed Tire Chains" for which they have the exclusive agency in this section of the country.

Endorsed: Mr. B., whose worth outside his interest in this business, we are informed, adds $300,000.

Bank Accounts: Bank A, New York City; Bank B, Boston, Mass., where liberal lines of credit are extended and to which refrence is made.

STATEMENT R

J. R. B. & CO., MISSISSIPPI

MANUFACTURERS HARDWOOD LUMBER

December 31, 1916

ASSETS

Cash	$28,676.57	
Bills Receivable	24,042.78	
Accounts Receivable	548,218.79	
Inventory	589,062.25	
		$1,190,000.39
Timber Tracts & Real Estate Investments	$63,962.07	
Other Investments	20,025.00	
		83,987.07
Unexpired Insurance Premiums		2,240.54
Flooring Company Plant	$193,677.84	
Main Plant	141,708.72	
West Mobile Plant	60,350.54	
Wire Bound Box Plant	3,511.00	
Total Plant Investment	$399,248.10	
Less Depreciation	45,161.55	
Net Plant Investment		$354,086.55
		$1,630,314.55

LIABILITIES

Bills Payable	$612,500.00	
Accounts Payable	47,939.40	
		660,439.40
Capital Stock:		
Preferred Stock	$160,000.00	
Common Stock	500,000.00	
		660,000.00
Surplus, as at Dec. 31, 1916		309,875.15
		$1,630,314.55

Dividends paid, $39,600.00. Fire liability fully covered by insurance. Certified to be correct, in accordance with the books.

(Signed) J. R. B. & CO.,
JOHN DOE, *President*

(Signed) JOHNSON & CO., *Certified Public Accountants*

ADDENDUM BY THE BROKERS

In explanation of our increased liabilities as shown in this statement, will say that we have made contracts within the last six months for $750,000 to $800,000 worth of walnut gunstocks for American gun manufacturers. We have furnished these gunstocks to Remington Arms Co. of New York and shipped to their plants at Bridgeport, Conn.; Eddystone, Pa., and Ilion, N. Y.; also the Ross Rifle Co., Quebec; Hopkins, Allen & Co., Norwich, Conn., and Westinghouse Electric & Mfg. Co. Some of these

orders were taken in connection with the Iowa Mill Co. These companies are all in the highest credit, and we are paid for the goods as soon as they arrive and count and inspection verified by them.

We are receiving cash from these sources every day, and present contracts are now 50 per cent. filled. We also have options on other business that will keep us busy supplying all through the year 1917.

The walnut logs used for this purpose can be utilized for our regular business whenever necessary.

We have delivered about $350,000 to $400,000 worth of this material, and have $300,000 to $400,000 on hand to deliver on contracts.

Our increase in sales for 1916, of about $470,000, was due largely to the sale of walnut gunstock material. This, however, has not interfered with our regular business.

In our statement we figured our merchandise on hand at cost or less. While we have large profits in the walnut lumber and logs we have on hand, we have not anticipated any of the profits on this stock we have sold under these contracts, in fact our inventory is taken very conservatively. While the stock has advanced considerably since our last inventory, we have not counted any advance in the market price of lumber in figuring up the inventory.

Our volume has increased nearly 100 per cent. during the past six months, as compared with the same period of 1915.

Yours very truly,
(Signed) J. R. B. & CO.,
JOHN DOE, *President*

[WHOLESALE LUMBER STATEMENT]

ANALYSIS OF STATEMENT R

Here is a concern that has profited by the war, and deems it advisable to explain why and how. It has contracted with manufacturers of firearms to supply them with walnut gunstocks in a large amount, and has made large purchases of raw lumber for that purpose. A stoppage of the war and cancellation of the contracts would leave the company with a stock of material specially suited to war purposes, but the company states that the walnut logs can be utilized in the regular business. The company figures its raw material at cost or less, even though the market has advanced. It has not anticipated any profit due to the advance in the price of raw material.

It has quick assets of nearly 2 to 1, sells largely on open credit, has one-quarter of its assets in plants, owns but a small tract of standing timber, and has a substantial surplus. It has made money, and barring unfavorable results following the declaration of peace, would be a high-class risk.

STATEMENT S

JONES & BRO., CALIFORNIA

MANUFACTURERS AND JOBBERS OF OVERALLS

December 27, 1916

ASSETS

Cash on Hand and in Bank	$6,497.40	
Accounts Receivable	42,080.53	
Bills Receivable	122.21	
Merchandise—Finished	60,351.59	
Raw Material	24,065.67	
		$133,117.40
Real Estate		3,500.00
Machinery and Fixtures		18,280.43
Stock in H. I. J. Co		10,000.00
		$164,897.83

LIABILITIES

Bills Payable	$25,000.00	
Accounts Payable	5,704.97	
		$30,704.97
Capital Stock—Common		100,000.00
Surplus		9,700.00
Undivided Profits		24,492.86
		$164,897.83

(Signed) JONES & BRO.,
By JOHN JONES, *President*

[CLOTHING MANUFACTURER'S STATEMENT]

ANALYSIS OF STATEMENT S

This is too small a concern to issue paper. It has a small working cash balance, practically nothing in bills receivable, as it should have; but little real estate, and a ratio of 4 to 1 in quick assets. It is a good statement.

STATEMENT T

BLANK REFINING CO., OKLAHOMA

MANUFACTURERS COTTON SEED OIL PRODUCTS

May 28, 1917

ASSETS

Cash on Hand	$283.03	
Accounts Receivable (good)	79,413.98	
Accounts Receivable (Subsidiary Company)	18,558.52	
Merchandise and Raw Material	65,297.49	
		$163,553.02
Real Estate		8,700.00
Machinery and Buildings		168,869.21
Furniture and Fixtures		1,200.00
Tank Cars		10,000.00
Wagons and Teams		862.00
		$353,184.23

LIABILITIES

Bills Payable, Bank	$20,000.00	
Bank Overdraft	2,140.10	
Accounts Payable for Merchandise	11,852.28	
Bills Payable on Machinery	3,465.63	
Ice Coupons Outstanding	585.24	
		$38,043.25
Capital		90,000.00
Surplus		90,000.00
Undivided Profits		135,140.98
		$353,184.23

The above statement verified, shown by our books and records, is correct.

(Signed) F. J. BLANK, *President*
JNO. D. JONES, *Secretary and Treasurer*

[COTTON SEED OIL STATEMENT]

ANALYSIS OF STATEMENT T

Here is a concern with no cash on hand, and a bank overdraft. It has accounts receivable from its subsidiary, a large investment in plant and machinery (nearly one-half the total assets) and a substantial undivided profits account. It has nominal bills payable, and would seem to be cleaned up on the open-market borrowings. It should not offer its paper in the broad market, inasmuch as it is in too small amount. It should borrow at home.

STATEMENT T

BLANK REFINING CO., OKLAHOMA

MANUFACTURERS COTTON SEED OIL PRODUCTS

May 28, 1917

ASSETS		
Cash on Hand	$283.03	
Accounts Receivable (good)	79,413.98	
Accounts Receivable (Subsidiary Company)	18,558.52	
Merchandise and Raw Material	65,297.49	
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Furniture and Fixtures		1,200.00
Tank Cars		10,000.00
Wagons and Teams		862.00
		$353,184.23
LIABILITIES		
Bills Payable, Bank	$20,000.00	
Bank Overdraft	2,140.10	
Accounts Payable for Merchandise	11,852.28	
Bills Payable on Machinery	3,465.63	
Ice Coupons Outstanding	585.24	
		$38,043.25
Capital		90,000.00
Surplus		90,000.00
Undivided Profits		135,140.98
		$353,184.23

The above statement verified, shown by our books and records, is correct.

(Signed) F. J. BLANK, *President*
JNO. D. JONES, *Secretary and Treasurer*

[COTTON SEED OIL STATEMENT]

ANALYSIS OF STATEMENT T

Here is a concern with no cash on hand, and a bank overdraft. It has accounts receivable from its subsidiary, a large investment in plant and machinery (nearly one-half the total assets) and a substantial undivided profits account. It has nominal bills payable, and would seem to be cleaned up on the open-market borrowings. It should not offer its paper in the broad market, inasmuch as it is in too small amount. It should borrow at home.

STATEMENT U

THE BLANK MILLS, INC., CHICAGO

MANUFACTURERS CARPETS, MATTINGS, ETC.

June 30, 1917

ASSETS

Cash on Hand and in Banks	$25,345.83	
Accounts Receivable	164,068.62	
Raw and Finished Merchandise	149,425.27	
		$338,839.72
Land, Buildings, Machinery and Fixtures		433,557.27
Patterns		64,121.96
Unexpired Insurance		2,290.96
Treasury Stock		12,100.00
		$850,909.91

LIABILITIES

Bills Payable	$85,000.00	
Accounts Payable	47,457.52	
Personal Loans	27,000.00	
		$159,457.52
Capital Stock		226,150.00
Surplus		311,120.59
Reserves		154,181.80
		$850,909.91

(Signed) BLANK MILLS, INC.,
By JOHN BLANK, *Treasurer*

Dun Rating—B 1
Bradstreet—L A

[CARPET MANUFACTURER'S STATEMENT]

ANALYSIS OF STATEMENT U

Here is a mill statement, and, as we would expect, shows most of the assets in land, buildings and equipment—amounting to over one-half the total assets. It has a substantial cash balance, but has evidently found it necessary to borrow of individuals to the extent of $27,000, which might better have been done through the paper market, inasmuch as it shows a ratio of over 2.5 to 1. It would be a safe purchase.

STATEMENT V

THE LINOLEUM & RUG CO., OHIO
July 31, 1917

ASSETS

Cash	$81,135.15	
Accounts Receivable	174,957.81	
Notes Receivable	8,057.64	
Merchandise—Company's Inventory	144,830.82	
Freight paid on Fall Merchandise	3,594.47	
		$412,575.89
Furniture and Fixtures		734.41
		$413,310.30

LIABILITIES

Notes Payable	$100,000.00	
Accounts Payable	22,310.30	
		$122,310.30
Capital Stock		250,000.00
Profit and Loss Surplus		26,000.00
Reserve for Discounts, Allowances and Other Purposes		15,000.00
		$413,310.30

CERTIFICATE OF AUDIT

We have audited the books and accounts of The Linoleum & Rug Co. for the year ended July 31, 1917, and we hereby certify that, in our opinion, the above condensed general balance sheet, July 31, 1917, is a correct statement of the company's condition at that date.

(Signed) HASKINS & SELLS,
Certified Public Accountants

(Signed) THE LINOLEUM & RUG CO.,
By A. B. X., *Vice-President*

Incorporated under Ohio laws with capital stock fully paid in of $250,000. The officers of this concern are Messrs. V. X., president, A. B. X., vice-president, and V. G. X., secretary. Mr. V. X. has been in this line of business for the past eighteen years and understands it thoroughly.

The company's borrowing is entirely for anticipating merchandise bills.

ENDORSEMENT—The paper is endorsed by Messrs. V. X. and A. B. X., who state they are worth over $300,000 outside of their interest in the business.

[LINOLEUM AND RUG STATEMENT]

ANALYSIS OF STATEMENT V

This concern has a large cash balance, but few notes receivable, and furniture and fixtures in a nominal amount. It owns no real estate and its assets are, therefore, all liquid. From the comment we conclude that the management is experienced, takes the discounts, and the paper bears the endorsement of two officials who claim a personal worth of three times the amount of paper outstanding. It is a strong statement, even though the total assets are under half a million, and has the added strength of the personal endorsements.

STATEMENT W

SMITH DRY GOODS CO., OREGON

DEPARTMENT STORE

June 30, 1917

ASSETS

Cash on Hand	$3,031.13	
Cash in Banks	8,357.55	
Accounts Receivable (good)	99,570.87	
Notes Receivable (good)	6,934.28	
Merchandise on Hand less 10%	173,092.26	
		$290,986.09
Unexpired Insurance	$572.36	
Personal Accounts (good)	10,547.48	
Accrued Interest	311.86	
Store Fixtures, less 10%	22,448.40	
Stable Equipment, less $398.45	1,000.00	
		34,880.10
		$325,866.19

LIABILITIES

Accounts Payable	$7,084.01	
Butterick Publishing Co.	500.00	
Accrued Taxes	2,115.95	
		$9,699.96
Capital Stock	$263,000.00	
Earnings for year 1916-17	53,166.23	
		316,166.23
		$325,866.19

Net Worth, $263,000.00

BANK ACCOUNTS
- Chase National Bank, New York City
- Metropolitan National Bank, New York City
- State National Bank, Texas
- American National Bank, Texas

[DEPARTMENT STORE STATEMENT]

ANALYSIS OF STATEMENT W

This is an unusually strong statement. The firm is relatively small, but we are impressed with the ratio of quick assets to liabilities, which is over 30 to 1. It could pay all its floating debt at any time. Its earnings are over 20 per cent. of its capital. They have cleaned up before making this statement and are practically free from debt. Their paper when offered would be of prime quality.

STATEMENT X

ROE LUMBER CO., NEW ENGLAND
December 31, 1916

ASSETS

Cash	$33,999.82	
Accounts and Bills Receivable	373,145.60	
Merchandise	406,334.79	
		$813,480.21
Timberlands		115,712.00
Plant		678,239.08
Personal Estate		43,341.79
		$1,650,773.08

LIABILITIES

Bills Payable	$367,673.14	
Accounts Payable	32,149.87	
		$399,823.01
Bills Payable to A. B. X., endorser		100,900.00
Permanent Loan from friends, largely at 5% interest		72,468.00
Capital Stock		800,000.00
Surplus		277,582.07
		$1,650,773.08

We discount all bills and have no indirect or contingent liability.

(Signed) ROE LUMBER CO.,
By A. W. ROE, *Treasurer*

ENDORSER—A. B. X., who states he is worth over $1,000,000, outside of the business.

BANK ACCOUNTS
- National Shawmut Bank, Boston, Mass.
- Old Colony National Bank, Boston, Mass.
- Maine National Bank, Portland, Me.
- Androscoggin National Bank, Portland, Me.

A. B. X., PERSONAL STATEMENT
January 1, 1917

ASSETS

Bills Receivable	$327,398.56	
Stocks and Bonds	1,143,227.50	
Vessel Property	52,147.10	
Real Estate	39,966.98	
Personal Property	11,275.00	
Accounts Receivable	6,232.13	
Money loaned, due on demand	43,682.70	
		$1,623,929.97

LIABILITIES

Notes and Accounts Payable	$30,111.06	
A. B. X., Net Worth	1,593,818.91	
		$1,623,929.97

(Signed) A. B. X.

[LUMBER STATEMENT WITH PERSONAL STATEMENT]

ANALYSIS OF STATEMENT X

This lumber company has, as would be expected, a large investment in plant and timberlands. It evidently pays by notes, inasmuch as we find the bills payable in odd amount. A. B. X. has advanced $100,900 and taken the company's notes. It has borrowed from friends to the extent of $72,468, but has a surplus of $277,000.

From the personal statement of A. B. X., we find added strength to the paper in a net worth of a million. It would be good paper in itself and with the strength of the endorser it is of high quality.

STATEMENT Y

BIG BROTHERS CO., INC., MARYLAND

MANUFACTURERS OF CIGARS

December 31, 1916

ASSETS

Cash			$43,327.79	
Debtors:				
Trade Debtors		$310,563.42		
Less Reserve for doubtful accts. & discounts		10,235.98		
			300,327.44	
Salesmen	$1,518.58			
Less Reserve	1,289.58			
		$229.00		
Sundry Debtors		8,761.58		
			8,990.58	
Inventories:				
Manufactured Goods			14,573.49	
Tobacco and Goods in Process			370,215.31	
Supplies			11,905.04	
Revenue Stamps			5,970.41	
Advertising Supplies			847.50	
Investment			19,250.00	
				$775,407.56
Plant, Land and Buildings			$125,009.12	
Less Reserve			10,000.00	
				115,009.12
Equipment			$79,373.02	
Less Reserve			10,202.84	
				69,170.18
Prepaid Insurance, Interest, etc.				3,525.44
				$963,112.30

LIABILITIES

Loans	$150,000.00	
Creditors:		
Trade Creditors	57,685.97	
Sundry Creditors	820.25	
Accrued Wages	7,435.87	
Accrued Bonus and Commissions	3,756.18	
Accrued Taxes	2,126.11	
		$221,824.38
Capital stock: 6,332 shares at $100 each		633,200.00
Undivided Profits: Bal. Jan. 1, 1916	$69,058.65	
Net Profits 1-1-16—12-31-16	156,023.89	
	$225,082.54	
Dividends paid during year	116,994.62	
		108,087.92
		$963,112.30

AUDITOR'S CERTIFICATE.

We have audited the books and accounts of Big Brothers Company, Inc., for the year ended December 31, 1916, and have compared the annexed balance sheet therewith.

The merchandise on hand, as inventoried and certified by the responsible officials of the company, is valued at or below cost, and in our judgment sufficient provision has been made for all probable losses upon customers' accounts, and the provision made for depreciation in respect of the operations for the period is adequate.

We have satisfied ourselves that all ascertainable liabilities have been included in the accounts.

We certify that the annexed balance sheet, in our opinion, correctly sets forth the financial position of Big Brothers Co., Inc., at December 31, 1916.

(Signed) PRICE, WATERHOUSE & CO.,
Certified Public Accountants

(Signed) BIG BROTHERS COMPANY, INC.
By JOHN BIG, *President*

Volume, $2,160.164
Endorsed, J. B., B. B. and V. B.

[CIGAR MANUFACTURER'S STATEMENT]

ANALYSIS OF STATEMENT Y

Here is a cigar manufacturer's statement. It shows a large cash balance. It has established reserves for all depreciation in doubtful accounts, discounts, salesmen's accounts, plant and equipment. It carries a large stock of tobacco "in process", as would be expected of a large manufacturer of cigars, and has a large line of outstanding book accounts.

It has taken no notes. Revenue stamps are equivalent to cash, since they may be redeemed. The total quick assets, $775,407.56, should be reduced by the item of "investment", $19,250, and advertising supplies, $847.50, to show the real quick assets, but notwithstanding, it has over 3 to 1 and it is a good statement.

It has made good profits and paid substantial dividends (nearly 20 per cent.).

The sales volume is large,—over $150,000 a month. It would pass a close test as prime paper.

STATEMENT Z

A. & J. CO., DELAWARE

WHOLESALE MILLINERY

April 1, 1917

ASSETS

Cash on Hand and in Banks		$160,586.51	
Accounts Receivable....	$188,448.10		
Less Reserve for Disc..	9,632.95		
		178,815.15	
Bills Receivable		14,950.12	
Loan Account		70,702.58	
Sundry Debtors		101,215.80	
Inventory (Merchandise)		215,298.90	
Accrued Interest		6,898.44	
			$748,467.50
Fixtures, New York....	$11,514.52		
Chicago	4,070.06		
San Francisco	1,509.77		
Boston	400.00		
	$17,494.35		
Less Res. for Depr....	6,956.37		
		$10,537.98	
Patent Rights		56,750.24	
Deferred Charges (Traveling).....		4,763.56	
Reserve for Accrued Dividends on Employees' stock		3,416.00	
Investment Account Stock of Blank Mercantile Corporation..........		34,649.54	
Credit Insurance (unexpired)......		468.75	
			110,586.07
			$859,053.57

LIABILITIES

Notes Payable		$310,000.00	
Sundry Creditors		44,415.61	
			$354,415.61
Capital Stock	$326,000.00		
Less Value of unexpired Contracts with Employees	26,000.00		
		$300,000.00	
Surplus		177,221.96	
Reserve for unexpired Contracts with Employees		23,416.00	
Reserve for Bad Debts............		4,000.00	
			504,637.96
			$859,053.57

(Signed) A. & J. CO.,
By B. J., *Treasurer*

Insurance Carried—95%-100%
Audited and found correct—H. G., C. P. A.

[WHOLESALE MILLINERY STATEMENT]

ANALYSIS OF STATEMENT Z

This millinery firm has a cash balance of 20 per cent. of the total assets, ample for all its needs. It could pay its "Sundry Creditors" four times over.

It has made a deduction for trade discounts.

It has a loan account of $70,000, which probably consists of loans to employees, or advances to salesmen; if the latter, it should be so stated.

It has "due from sundry debtors" $101,000, and we might well inquire into these two items before buying the paper.

Its merchandise item is a little larger than the accounts receivable. Inventory being made at the height of the season, its stock should be relatively low and the book accounts high, but only a comparison with a statement at the ebb time of its business would show the contrast.

The fixtures are scattered in four places and scaled 30 per cent. The patent rights might or might not be valuable.

Its investment in the stock of the Blank Mercantile Corporation may be for various reasons, and the value might or might not be as stated. Such assets are difficult to appraise without inside knowledge of the facts. The ratio of quick assets should be obtained after deducting the "loan account" and "sundry debtors," which might be slow of realization. This leaves the ratio 1.6 to 1, hardly enough for millinery. It has a good-sized surplus, carries reserves for unexpired contracts and bad debts, which are proper deductions.

It carries from 95 to 100 per cent. insurance, as well it might. A fire in a millinery establishment is disastrous.

It is audited, but gives no gross annual sales.

We should want more information, and careful checking before buying this paper.

STATEMENT AA

A. B. C. MUSIC CO., MISSOURI

MUSICAL INSTRUMENTS

April 30, 1916

ASSETS

Cash in Banks and on Hand		$125,287.63	
Cus. Notes & Accts. Rec.	$3,099,228.53		
Sales Agents' Balance	32,733.29		
Sundry Debtors	14,203.38		
	$3,146,165.20		
Less Res. for Doubtful Accts.	406,376.87		
		2,739,788.33	
Mdse. Stocks as per Inventories		1,069,649.63	
			$3,934,725.59
Real Estate			1,250,200.00
Leasehold Property, Equipment, Furniture, Fixtures, Electros, etc., less depreciation			288,425.39
Investments:			
The Musical Mfg. Co. Stock		$594,000.00	
Other Company Investments		264,354.46	
Notes & Accts. due from Allied Cos.		50,068.47	
			908,422.93
			$6,381,773.91

LIABILITIES

Notes Payable—Less Interest	$1,603,420.00	
Due Stockholders & Employees	139,670.10	
Due Sales Agent, Detroit	13,472.56	
Sundry Accounts Payable	372,724.05	
Accrued Wages & Taxes	13,957.09	
The Musical Mfg. Co.	738,433.47	
Accrued Dividends	8,974.58	
		$2,890,651.85
Real Estate Mortgages		342,000.00
Insurance Fund Reserve (see below).		
Capital Stock—Preferred	$1,500,000.00	
Capital Stock—Common	1,500,000.00	
		3,000,000.00
Surplus & Undivided Profits		149,122.06
		$6,381,773.91

(Signed) A. B. C. CO.,
By A. B. C., *Treasurer.*

Certified: THE EXAMINING CO., as of April 30, 1916.

[MUSIC HOUSE STATEMENT]

ANALYSIS OF STATEMENT AA*

Here is a statement of a large musical house. It has several features that prompt unfavorable comment. It is 18 months old. The cash is ample. Inasmuch as musical instruments are sold on time payments, both in the form of notes and book accounts, it is to be expected that accounts receivable and bills receivable will be much in evidence, and they are to the extent of $3,099,228.53, and properly so. The company, no doubt, has agencies to which it charges shipments and credits payments, and the net balance due from its agents appears as "Sales Agents' Balances"—$32,733.29.

The reserve for doubtful accounts is about 13 per cent. of the item, "Customers' Notes and Accounts Receivable" showing a large shrinkage, or anticipated shrinkage, in collections.

The real estate item is large, and properly so, inasmuch as the company is a manufacturing concern and needs buildings and equipment for its operations. There is a subsidiary in the form of the "Musical Manufacturing Co.," in which the parent concern has a large investment, nearly $600,000. It has other investments, amounting to over $300,000. Altogether, the assets are not subject to criticism. But turning to the liabilities, we find the company has $1,603,420 of commercial paper on the market, a considerable amount, even for so large a concern. It owes stockholders and employees, presumably for money advanced or left on deposit with it, $139,000. It has accounts payable of $372,724, making a total of quick liabilities of nearly two million dollars, which, although making a ratio of about two to one, may become an element of danger. The company not only has a large investment in its subsidiary but owes it $738,433, and we would want more information as to this alliance. The company has accumulated a surplus of but $49,000, indicating too large distribution of profits or excessive expenses or bad management. It would seem to have altogether too much paper on the market and while the concern is strong in total assets may prove weak under severe strain. It would be safe to leave this paper alone.

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*NOTE:—The preceding statements are all to a large degree satisfactory. The paper of any or all the concerns would be a safe banking risk. The following statements have weaknesses as pointed out, and the paper should not be purchased without due inquiry.—W. H. K., Jr.

STATEMENT BB

THE X. Y. Z. RUBBER CO., KANSAS

MANUFACTURERS

October 1, 1917

ASSETS

Cash	$45,386.92	
Bills Receivable	150,567.80	
Accounts Receivable	911,840.50	
Merchandise	584,180.33	
Rubber	1,010,623.29	
Other Material and Supplies	165,700.75	
		$2,868,299.59
Real Estate and Buildings		913,260.83
Machinery and Tools		1,080,012.82
Office Furniture and Fixtures		45,968.79
Interest and Insurance Prepaid		30,137.60
Trade Marks and Patents, Good Will		2,007,500.00
		$6,945,179.63

LIABILITIES

Bills Payable	$1,400,000.00	
Accounts Payable (including payroll since paid and building material on the ground)	240,380.44	
Accrued Taxes	12,854.12	
		$1,653,234.56
Common Stock		2,500,000.00
Preferred Stock		2,500,000.00
Surplus		291,945.07
		$6,945,179.63

ANALYSIS OF SURPLUS

Surplus, July 1, 1916	$831,746.99	
Earnings July 1, 1916, to Oct. 1, 1917	952,952.02	
		$1,784,699.01
Less Common Stock Dividend	$1,000,000.00	
Depreciation and Expense of increased Capitalization	232,795.94	
Dividends Paid, July 1, 1916 to Oct. 1, 1917	259,958.00	
		1,492,753.94
		$291,945.07

[RUBBER COMPANY'S STATEMENT]

ANALYSIS OF STATEMENT BB

While the ratio in this statement is nearly three to one, and, therefore, satisfactory, there are two features in the statement that merit criticism, namely: The item of Trade Marks, Patents and Good Will is nearly one-third the total assets, and, as explained elsewhere in the text, Good Will is an uncertain quantity, subject to many vicissitudes. This is a rubber company, and, no doubt, manufactures automobile tires. The competition is becoming more and more keen in automobile supplies and the company must spend large amounts advertising and cultivating the good will in order to hold it.

The analysis of surplus discloses the fact that the company earned \$952,952 in fifteen months, which, added to the accumulated surplus, made a total of \$1,784,699. They declared a dividend upon the common stock, which in this case might possibly represent the good will in the asset column. They paid dividends on the other class of stock amounting to \$259,958, thus reducing the surplus to \$291,945, or two-thirds less than at the beginning of the period under review. It is not good business to thus depreciate past accumulations and indicates management open to question. Somebody has, no doubt, profited by this financing. This dividend may enhance the value of the stock on the market, but the company cannot repeat the process often. It may have been a "melon cutting," which while profitable for the moment, may not be in the long run. We would want explanations in detail before buying this paper to any great extent.

STATEMENT CC

JOHN DOE CHEMICAL CO., ALABAMA

Wholesale Drugs and Sundries

April 20, 1916

Assets

Cash	$4,577.04	
Accounts Receivable (good)	96,707.84	
Bills Receivable (good)	134,771.03	
Mdse. finished (market value)	185,116.30	
		$421,172.21
Real Estate		92,075.00
Machinery and Fixtures		57,164.06
Catalogues, Stationery, Labels, etc		63,254.57
Organization Expense		53,228.05
		$686,893.89

Liabilities

Bills Payable	$347,500.00	
Accounts Payable	57,393.89	
		$404,893.89
Money advanced by John Doe and Richard Doe		132,000.00
Mortgage due July 1, 1916		60,000.00
Capital Stock		50,000.00
Surplus		40,000.00
		$686,893.89

(Signed) JOHN DOE CHEMICAL CO.,
By John Doe, *Treasurer*

Bank Account—Mobile Savings Bank, Mobile, Ala.

[chemical statement]

ANALYSIS OF STATEMENT CC

There are several features about this statement that are unsatisfactory. In the first place, it is an old statement—too old for current purposes. It is unaudited. The cash would seem sufficient. The accounts receivable are one-half the stock on hand. The bills receivable are out of all proportion and either indicate poor collection methods or doubtful accounts thus liquidated. Drugs are mostly quick sellers. The retailer orders as his needs require, and to find bills receivable in evidence in a drug statement is a warning to investigate carefully before making a purchase of such paper.

The merchandise is inventoried at selling prices (evidently) unless the term "market value" can be construed cost or replacement value.

The real estate is large and merits inquiry. Machinery and fixtures are also large and show no provision for depreciation. The firm has evidently plunged into an expensive catalogue expense, bought large quantities of stationery, labels, etc., which is not a good policy. The organization expense account indicates that this is a new concern, and has not yet charged off its initial expenses out of profits.

The ratio of quick assets to quick liabilities is about even, and, therefore, if each asset liquidated in full it would barely meet the debts.

Bills payable are about one-half the total worth of the concern. The proprietors have advanced large sums of money up to this date, other than their capital stock investment. There is an element of risk in the mortgage falling due on July 1, 1916, for which no apparent provision has been made. If these doubtful points were not cleared up satisfactorily, the paper would be a poor risk, and even though they were, it would not be more than a fair one. It would be good policy to leave it alone.

STATEMENT DD

THE W. R. C. CO., CHICAGO

WHOLESALE DRY GOODS

October 31, 1917

ASSETS

Cash		$139,956.48	
Notes Receivable (Customers)		102,451.71	
Accounts Receivable:			
Customers	$549,058.40		
Advance on Purchases	884.81		
Individuals & Companies	10,311.24		
		560,254.45	
Inventories—Mdse. & Supplies		583,847.20	
			$1,386,509.84
Deposits—Reciprocal Insurance			2,305.52
Investments			25,000.00
Furniture & Fixtures	$150,207.54		
Less Reserve	46,707.54		
		$103,500.00	
Automobile Trucks		7,000.00	
Real Estate	$230,000.00		
Less Mortgage	217,500.00		
		12,500.00	
			123,000.00
Prepaid Insurance & Expenses			8,891.72
Suspense Accounts			8,632.03
			$1,554,339.11

LIABILITIES

Notes Payable		$1,405,000.00
Accounts Payable:		
Purchases	$80,109.62	
Customers' Credit Balances	1,608.14	
Individuals & Companies	34,563.84	
Accrued Wages & Expense	3,381.77	
		119,663.37
Surplus		29,675.74
		$1,554,339.11

(Signed) THE W. C. R. CO.,
By W. C. R., *President.*

[WHOLESALE DRY GOODS STATEMENT]

ANALYSIS OF STATEMENT DD

This company's statement is open to criticism in several matters. For a dry goods house it has altogether too many notes receivable. Judging from the amount due on accounts receivable, it evidently does not and should not sell on promissory notes, and these notes must of necessity be for doubtful accounts, at least accounts overdue and settled in this manner.

The accounts receivable are much too large. Not having the volume of sales we cannot tell what proportion these accounts bear to the sales, but they form one-third the total quick assets, and better collection methods would be a proper innovation.

The investment in furniture and fixtures would seem to be entirely too large, and the company has apparently spent too much in equipment. Wholesale dry goods do not need the same display as retailing in the same line, and this item would bear investigation.

The equity in the real estate is practically nothing, inasmuch as it is mortgaged for its full value.

The notes payable in the sum of $1,405,000 are greater than the entire quick assets and our margin of safety is gone. The company is doing business on borrowed money, and its capital is in furniture and fixtures. There is strong likelihood that as a going concern the company is in a precarious position, and its paper would not be a proper bank investment unless fully protected by strong endorsement, and this in itself is an evidence of weakness.

STATEMENT EE

THE A. B. X. CO., CALIFORNIA

LEATHER MANUFACTURERS

March 31, 1917

ASSETS

Cash in Banks and on Hand		$80,407.26	
Notes Receivable		21,306.02	
Accounts Receivable, net of reserve		199,313.27	
Inventories:			
Leather on Consignment	$112,264.37*		
Finished Leather and Cut Soles	447,871.05		
Leather in Process	250,089.75		
Raw Hides	80,867.44		
Tanning and Other Supplies	90,541.66		
		981,634.27	
Note: Neither the inventory nor the liabilities includes hides valued at approximately $72,000, which were shipped in by sellers prior to March 31, 1916, although delivery had been contracted for later dates.			
Deferred Accounts:			
Advances for the purchase of Hides; Salesmen's Advances; Unexpired Insurance		18,429.53	
			$1,301,090.35
Investments in Companies other than those whose stock is wholly owned by J. W. and A. P. X. & Co., Ltd. and Collateral Loan			58,589.15
Plants:			
Land, Tannery Buildings, Machinery and Equipment, Workmen's Dwellings, etc.		337,318,85	
Less Reserve for Depreciation		69,903.21	
			267,415.64
			$1,627,095.14

LIABILITIES

Notes Payable:			
Banks	$409,000.00		
Individuals	7,113.54		
		$416,113.54	
Accounts Payable		4,613.89	
Doe Hide & Leather Co.		13,999.80	
			$434,727.23
Capital:			
Capital Stock		$300,000.00	
Surplus		892,367.91	
			1,192,367.91
			$1,627,095.14

*At selling values, all other items in inventory at cost or less.

[LEATHER STATEMENT]

ANALYSIS OF STATEMENT EE

There is but one item in this statement that prompts unfavorable comment, namely, the "Leather on Consignment". Consignment goods do not belong to the consignee, and form no part of his assets, and should not be so listed unless they are not consignments, but purchases. In this case we have no corresponding liability, unless it be in the commercial paper outstanding. If the proceeds of the sold paper have been applied to the payment of the leather on consignment, then it should be listed as merchandise, finished or unfinished, as the case may be, but not as consignment goods, which opens the question of ownership. The investments in other companies is not a large item, and a list of these investments would not, as a general rule, be self-explanatory, inasmuch as such investments are usually in allied corporations, and an appraisal of such stock is not an easy matter to obtain. The margin of safety here is sufficient to cover the doubtful points, inasmuch as leather is a necessity and has a ready market, but more light covering the above points would be acceptable.

STATEMENT FF

BLANK WORSTED MILLS, MASSACHUSETTS
July 31, 1916

ASSETS

Cash on Hand and in Banks	$1,527.45	
Accounts Receivable	243,262.86	
Inventory	668,508.96	
		$913,299.27
Real Estate		363,794.63
Machinery, Tools and Fixtures		305,853.40
		$1,582,947.30

LIABILITIES

Notes Payable		$192,000.00	
Accounts Payable		85,797.28	
			$277,797.28
Bonds on Real Estate and Machinery due 1917			500,000.00
Capital Stock			500,000.00
Surplus Dec. 31, 1915		$338,939.25	
Less: 6% Int. on Bonds	$30,000.00		
2% Dividend Paid	10,000.00		
		40,000.00	
		$298,939.25	
Net Profit for Year		6,210.77	
Present Surplus Account		$305,150.02	305,150.02
			$1,582,947.30

(Signed) BLANK WORSTED MILLS,
By L. M. BLANK, *President*

Volume—$1,451,960.91

[WOOLEN MILL STATEMENT]

ANALYSIS OF STATEMENT FF

The statement of the Blank Worsted Mills is over a year old. The cash on hand is entirely too small to operate such a large concern. The real estate does not show any provision for depreciation, nor does the item of machinery, tools, etc. The ratio of quick assets to quick liabilities is about three to one, and is, therefore, quite satisfactory. The bonds on the real estate and machinery are nearly five-sixths of the holding value of the plant and furnishings, and mature in 1917, a dangerous element, due to war conditions. It may not be possible to refund these bonds at satisfactory rates, and provision should have been made long in advance of their maturity to replace them with a new issue, which fact should be stated. The net earnings are but $6,210.77, although the accumulated surplus is large. The dividend of $10,000 would not seem to have been justified out of earnings. The company's affairs need close examination to determine the reason for the weaknesses above noted, for although the volume of business is large, the profits are relatively small. Collections should be closely followed up, and the working cash balance considerably strengthened.

STATEMENT GG

THE BLANK DRUG CO., OREGON
August 31, 1916

ASSETS

Cash on Hand and in Bank..........	$8,414.16	
Notes Receivable (for Mdse. Sold)...	149,821.91	
Notes Receivable (for Cash Advances)	36,532.43	
Accounts Receivable	527,491.33	
Merchandise (Cost Price) including Goods in Transit	630,380.36	
		$1,352,640.19
Investment		11,585.38
Equipment		74,092.82
Advanced Expenses		8,427.42
		$1,446,745.81

LIABILITIES

Accounts Payable	$174,655.05	
Notes Payable	264,300.00	
		$438,955.05
Reserve for Depreciation, Losses and Taxes.....		101,726.20
Capital Stock		250,000.00
Surplus		656,064.56
		$1,446,745.81

In addition to the above, there exists a contingent liability on account of Accommodation Endorsement of Customers' Notes amounting to $62,364.39.

We have audited the accounts of the Blank Drug Co. for the fiscal year ended August 31, 1916. We hereby certify that the above statement of assets and liabilities is, in our opinion, a true and correct statement of the financial condition of said company as shown by their books on the date of our audit. Respectfully,

(Signed) DOE & CO.,
Certified Public Accountants

(Signed) BLANK DRUG CO.,
By B. A. BLANK, *President*

[DRUG STATEMENT]

ANALYSIS OF STATEMENT GG

Before passing this statement we should want full and satisfactory explanations regarding the following matters: The notes receivable are entirely too large. Drugs are not sold on promissory notes, as a general custom, and the presence of this item invokes inquiry as to the reason. It may be that this house has made it a practice for a long time and this method is pursued as a steady business arrangement with old customers, but this is not the accepted method in wholesale drugs and should be changed to the open-book credit.

The notes receivable for cash advances also raises the question as to the reason for this item in the statement. If it is for borrowed money it indicates that the company has exhausted its banking credit and has sought the field of private borrowing, which is most unsatisfactory and dangerous to the concern's credit.

The accounts payable are large—too large, in fact, and if the sales were stated, could be estimated more accurately in comparison with their volume of business.

The concern has not only held back payment on its accounts payable and taken notes for sales to customers, loaned money and taken notes, but discounted its receivables with a contingent liability of $62,364, which, while stated as it should be, is an element of weakness. It would be better accounting to show the notes receivable less notes discounted, giving the net result as the asset unpledged. These notes are no longer an asset since they have been turned into cash.

The merchandise item includes goods in transit, not yet received into stock, and unless the invoices are listed as a liability, these goods are no part of the resources of the firm.

STATEMENT HH

THE SWEET CANDY CO., NEW ORLEANS
MANUFACTURERS COCOA AND CHOCOLATE
January 1, 1917

ASSETS

Cash	$67,640.74	
Accounts Receivable	353,236.42	
Notes Receivable	35,413.64	
Merchandise	483,157.79	
		$939,448.59
Real Estate and Buildings	$267,150.74	
Less Mortgages	81,000.00	
		186,150.74
Machinery and Fixtures	$474,214.28	
Less Reserve for Depreciation	20,000.00	
		454,214.28
Sundry Advances to Salesmen, Employees, etc.		12,887.09
Loans to Customers on Collateral		102,690.83
Stock—James Van Dyk Co		1,000.00
Automobiles		13,165.21
New York City Bond		516.46
Insurance—Unexpired Portion and Surrender Value		1,952.43
Good Will, Trade Marks, etc		449,670.89
		$2,161,696.52

LIABILITIES

Accounts Payable	$89,580.46	
Notes Payable	160,000.00	
Deposits	10,772.32	
Sundry Personal Credits	15,137.39	
		$275,490.17
Reserve for Bad Debts		10,000.00
Capital Stock—Authorized and Issued		1,250,000.00
Surplus		626,206.35
		$2,161,696.52

This is to certify that we have audited the books of your company for the year 1916 and that the annexed financial statement reflects, in our opinion, the true condition of your company as at January 1, 1917. This certificate is qualified to the extent that the inventory values are as prepared by and supplied to us by you.

(Signed) R. &. W.,
Certified Public Accountants

(Signed) SWEET CANDY CO.,
By W. M. SWEET, *Treasurer*

[CANDY STATEMENT]

ANALYSIS OF STATEMENT HH

The Sweet Candy Co. presents a good statement of condition, the quick assets being over two to one. There is one unusual item in the assets, namely, the loans to customers on collateral to the extent of $102,690. They have evidently done a banking business, for such advances are banking operations and have no place in a manufacturing statement. The good will, trade marks, etc., is large, nearly 20 per cent. of the total assets. This is always a problematical element and is best carried at a nominal figure. They have received funds for safe keeping from employees or friends, or both, and set up a liability of $25,919 to represent this end of their banking operations. They make a well-known brand of chocolates, the stock is quickly convertible and the paper would be well regarded in banking circles.

STATEMENT II

THE M. T. CO., UTAH

Wholesale Dry Goods

December 31, 1916

Assets

Cash on Hand and in Banks......		$43,108.37	
Accounts Receivable....	$242,679.24		
Notes Receivable	3,973.09		
	$246,652.33		
Less: Reserve for Cash Dis. and possible losses	5,615.03		
		241,037.30	
Merchandise Inventory		442,241.66	
			$726,387.33
Real Estate at cost, subject to a First Mortgage of $2,000			3,683.35
Furniture and Fixtures (less depreciation).......			3,000.00
Automobiles (less depreciation)...............			1,000.00
Printing Equipment			1,324.42
Advances to Salesmen on account of expenses, etc.			51,085.00
Unexpired Insurance, Interest, Stationery, etc....			4,524.98
			$791,005.08

Liabilities

Notes Payable to Brokers.........	$145,000.00	
Accounts Payable	118,294.18	
Accrued Taxes	7,973.70	
Due to Officers of Company........	9,165.99	
		$280,433.87
Reserve Account		60,000.00
Capital Stock—1,000 shares of $100 each........		100,000.00
Surplus		69,011.52
Contributed Surplus—Non-interest bearing and not subject to withdrawal		281,559.69
		$791,005.08

Sales, $1,277,500

Note: The Company carries insurance of $100,000 on the lives of its Vice-President, Secretary and Treasurer.

[wholesale dry goods statement]

ANALYSIS OF STATEMENT II

This is a good statement in the ratio of quick assets to quick liabilities, and there is but one item that merits criticism. The advances to salesmen is large—$51,085. Just why the company should make such heavy advances is not stated, and it would justify inquiry. It is common to make small advances to salesmen for expenses, drawing accounts, etc., but in a concern of this size the amount of these prepayments should not be so great. The sales are about $100,000 a month, and allowing for a profit of 25 per cent., give about two months' sales on the books, which in wholesaling would not be excessive. The merchandise will supply stock for about four months, and only one month's purchases are unpaid.

We have two surplus funds—the earned surplus and the contributed. The latter is not subject to distribution, and was doubtless created by selling the stock at a premium. The company carries a reserve account of $60,000, insurance on the lives of its officers, and has a nominal investment in real estate. Altogether the statement is satisfactory, and receiving satisfactory reasons for the advances to salesmen, would pass as good paper to hold.

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